

EXECUTIVE SESSION.

Mr. O'GORMAN. I move that the Senate proceed to the consideration of executive business.

The motion was agreed to, and the Senate proceeded to the consideration of executive business. After 55 minutes spent in executive session the doors were reopened, and (at 3 o'clock and 55 minutes p. m.) the Senate adjourned until to-morrow, Tuesday, November 25, 1913, at 12 o'clock meridian.

NOMINATIONS.

Executive nominations received by the Senate November 24, 1913.

UNITED STATES MARSHAL.

Edgar H. James, of Kentucky, to be United States marshal, western district of Kentucky, vice George W. Long, resigned.

MEMBERS OF THE PHILIPPINE COMMISSION.

Henderson S. Martin, of Kansas, to be a member of the Philippine Commission, secretary of public instruction, and vice governor of the Philippine Islands, vice Newton W. Gilbert, resigned.

Clinton L. Riggs, of Maryland, to be a member of the Philippine Commission and secretary of commerce and police, vice Charles B. Elliott, resigned.

Winfred T. Denison, of New York, to be a member of the Philippine Commission and secretary of the interior, vice Dean C. Worcester, resigned.

CONFIRMATIONS.

Executive nominations confirmed by the Senate November 24, 1913.

CONSULS GENERAL.

Stuart J. Fuller to be consul general at large.

William W. Handley to be consul general at Callao, Peru.

Michael J. Hendrick to be consul general at Christiania, Norway.

Carl Bailey Hurst to be consul general at Barcelona, Spain.

Henry H. Morgan to be consul general at Hamburg, Germany.

Ransford S. Miller to be consul general at Seoul, Chosen.

Thomas Sammons to be consul general at Shanghai, China.

George H. Seidmore to be consul general at Yokohama, Japan.

Robert P. Skinner to be consul general at Berlin, Germany.

John Q. Wood to be consul general at Adis Ababa, Abyssinia.

CONSULS.

Henry D. Baker to be consul at Bombay, India.

John K. Baxter to be consul at Maracaibo, Venezuela.

Harold D. Clum to be consul at Corinto, Nicaragua.

William Dawson, jr., to be consul at Rosario, Argentina.

W. Roderick Dorsey to be consul at Tripoli, Libya.

William F. Doty to be consul at Nassau, Bahamas.

Julius D. Dreher to be consul at Toronto, Ontario, Canada.

Cornelius Ferris, jr., to be consul at Port Antonio, Jamaica.

Charles Forman to be consul at Moncton, New Brunswick.

Paul H. Foster to be consul at Jerez de la Frontera, Spain.

Arminius T. Haerberle to be consul at St. Michaels, Azores.

Lewis W. Haskell to be consul at Belgrade, Servia.

Charles M. Hathaway, jr., to be consul at Hull, England.

Frank Anderson Henry to be consul at Puerto Plata, Dominican Republic.

Charles A. Holder to be consul at Cologne, Germany.

Douglas Jenkins to be consul at Riga, Russia.

Milton B. Kirk to be consul at St. Johns, Quebec, Canada.

Myrl S. Myers to be consul at Swatow, China.

Kenneth S. Patton to be consul at Cognac, France.

Albert W. Pontius to be consul at Nanking, China.

John A. Ray to be consul at Sheffield, England.

Emil Sauer to be consul at Goteborg, Sweden.

Maddin Summers to be consul at Santos, Brazil.

Robert J. Thompson to be consul at Aix la Chapelle, Germany.

Frederick Van Dyne to be consul at Lyon, France.

Charles L. L. Williams to be consul at Dalny, Manchuria.

Jay White to be consul at Naples, Italy.

NAVAL OFFICER OF CUSTOMS.

William Brown to be naval officer of customs in the district of Chicago.

APPRAISER OF MERCHANDISE.

Seth F. Clark to be appraiser of merchandise in the district of Maine and New Hampshire.

COLLECTOR OF INTERNAL REVENUE.

John M. Rapp to be collector of internal revenue for the thirteenth district of Illinois.

POSTMASTERS.

FLORIDA.

L. M. Caswell, Perry.

INDIANA.

William S. Tindall, Paoli.

MISSISSIPPI.

Myrtle A. McKay, Pelahatchee.

MISSOURI.

Sterling S. Ball, Kahoka.

NORTH DAKOTA.

W. W. Anderson, Edgeley.

OHIO.

Addie E. Joseph, Nottingham.

OKLAHOMA.

A. L. Kates, Claremore.

Julia P. Montgomery, Valliant.

H. W. Warrick, Lehigh.

SOUTH DAKOTA.

J. F. Kelley, Aberdeen.

SENATE.

TUESDAY, November 25, 1913.

Prayer by the Chaplain, Rev. Forrest J. Prettyman, D. D.

NAMING A PRESIDING OFFICER.

The Secretary (James M. Baker) read the following communication:

PRESIDENT PRO TEMPORE UNITED STATES SENATE,
Washington, November 25, 1913.

To the Senate:

Being temporarily absent from the Senate, I appoint Hon. JOHN RANDOLPH THORNTON, a Senator from the State of Louisiana, to perform the duties of the Chair during my absence.

JAMES P. CLARKE,
President pro tempore.

Mr. THORNTON thereupon took the chair as Presiding Officer and directed that the Secretary read the Journal of the proceedings of the last legislative day.

THE JOURNAL.

The Journal of yesterday's proceedings was read and approved.

PETITIONS AND MEMORIALS.

The PRESIDING OFFICER presented resolutions adopted by the Kapahulu Improvement Club, of Honolulu, Hawaii, favoring the enactment of legislation for the extension of the franchise of the Honolulu Rapid Transit & Land Co., which were referred to the Committee on Pacific Islands and Porto Rico.

Mr. TOWNSEND presented a petition of the Michigan Patent Law Association, praying for the repeal of the copyright law, which was referred to the Committee on Patents.

He also presented a memorial of sundry citizens of Kalamazoo, Mich., remonstrating against the enactment of legislation compelling the observance of Sunday as a day of rest in the District of Columbia, which was referred to the Committee on the District of Columbia.

Mr. WEEKS presented a memorial of the Social Science Club of Newton, Mass., remonstrating against the enactment of legislation authorizing the city of San Francisco to use the waters of Hetch Hetchy Valley, which was ordered to lie on the table.

Mr. WEEKS (for Mr. LODGE) presented the memorial of L. B. R. Briggs, president of Radcliffe College, and of William Z. Ripley and sundry other professors of Harvard University, Cambridge, Mass., and the memorial of William D. Parkinson, superintendent of schools, and other sundry citizens of Waltham, Mass., remonstrating against the enactment of legislation authorizing the city of San Francisco to use the waters of Hetch Hetchy Valley, which were ordered to lie on the table.

Mr. CHAMBERLAIN. I present a petition from citizens of the State of Oregon relative to the passage of a pension bill for the membership of the United States Military Telegraph Corps, which I ask may be printed in the RECORD, together with the signatures, and referred to the Committee on Pensions.

There being no objection, the petition was referred to the Committee on Pensions and ordered to be printed in the RECORD, together with the signatures, as follows:

NOVEMBER 11, 1913.

To the Congress of the United States:

The undersigned citizens of Portland, in the State of Oregon, believing that the members of the United States Military Telegraph Corps, who rendered exceptional military service in the Civil War, 1861-1865,

have heretofore been overlooked in the distribution of the rewards meted out to the soldiers of that war, do most earnestly petition the Congress to pass remedial legislation in the form of the pension bills now before it.

W. A. Robb, 641 Mountain Boulevard; W. E. Brooks, 758 East Couch; J. A. Paquette, 590 Division; C. R. Parkinson, 1830 Clackamas Street; Robert A. Montgomery, Gardner Avenue and Cooper Street; J. A. Carter, 730 Hoyt Street; B. M. Brents, 414 Mill Street; F. Springer, 181 Green Avenue; H. B. Nesbit, Hotel Congress; A. Schoepper, 835 Tenth Street; L. E. Anderson, 150 North Twenty-fourth Street; C. J. Gotthelf, 350 Salmon Street; B. R. Bates, 207 Fourteenth Street; L. B. Kinne, 363 East Forty-ninth Street; S. J. Johnston, 380 East Fifth Street; George W. Hann, 964 Corbett Street; W. A. Humphrey, 8 East Eleventh Street; Ira Greenwood, 6810 Forty-third Avenue SE.; W. Butler, Franklin Hotel; Frank C. Routledge, Orlando Apartments, Twentieth and Washington Streets; Harry A. Whitson, 912 East Nineteenth Street N.; J. W. Holt, 433 Broadway S.; C. E. Christie, 302 East Forty-sixth; I. E. Hickey, 591 East Twentieth Street; E. G. Nixon, 6105 Forty-eighth SE.; M. M. Swearingen, 1157 East Morrison; C. A. Cook, Park Rose; H. G. Dorr, 1888 Stanton Street; P. F. Schnur, 816 Clackamas Street; L. H. Kluge, 183 East Thirty-third; C. W. Browne, 1477 Fern Street; E. G. Gray, 1550 Vincent Avenue; R. G. Gray, 1550 Vincent Avenue; N. A. Slocum, 251 East Thirty-ninth Street; B. Howell, 311 Eleventh Street; C. M. Trimble, 260 Nartilla; C. B. Sweet, Grandesta Apartments; C. A. Leppere, 1900 East Taylor Street; G. B. Flood, 231 East Seventy-second N.

Mr. GALLINGER presented the memorial of R. M. Shurtleff, of New York, N. Y., remonstrating against the enactment of legislation authorizing the city of San Francisco to use the waters of the Hetch Hetchy Valley, which was ordered to lie on the table.

WOMAN SUFFRAGE.

Mr. GALLINGER. Mr. President, I have a memorial signed by Mrs. George S. Edgell, of Newport, N. H., daughter of the late Austin Corbin, and 204 other women of the State of New Hampshire, protesting against granting the suffrage to women.

In transmitting the memorial Mrs. Edgell very modestly suggests that she would be pleased to have it appear in the RECORD. I will therefore ask that the heading of the memorial be read, and that the names be not inserted in the RECORD, as that is contrary to our custom. As the joint resolution on the subject has been reported to the Senate, I ask that the memorial lie on the table.

There being no objection, the memorial was read and ordered to lie on the table, as follows:

To the Federal Congress of the United States of America in Washington assembled:

We, the undersigned citizens of Newport, in the county of Sullivan, and State of New Hampshire, representing women of every station in life, trusting in God and vitally interested in the preservation of the traditional American home, are opposed to the extension of suffrage to our sex.

With the demands of society, the calls of charity, the church, and philanthropy constantly increasing, we feel that to add the distracting forces of political campaigns would wreck our constitutions and destroy our homes.

At all times we are ready to give our full portion of love and sacrifice for the life of the Nation and the good of mankind, but we look upon the attempt now being made by some to crowd the obligations of suffrage upon us as a move to change our natures and destroy us for that wider field of influence and usefulness which in America has always belonged to woman.

Therefore we respectfully petition your honorable body, and ask that you will vote against all measures which may come before you looking to the extension of the franchise to women.

Dated at Newport, N. H., this 7th day of July, 1913.

SAN FRANCISCO WATER SUPPLY.

Mr. PITTMAN. Mr. President, I have here a resolution of the California Camera Club, of California, in regard to the bill commonly known as the Hetch Hetchy water bill, referring to the San Francisco water system. In presenting the resolution to the Senate and asking that it may be read by the Secretary I wish to make a preliminary statement. This club is composed of members from the whole State of California. It has a very large membership and nearly every member of the club has been in the Hetch Hetchy Valley. They made a trip there as a club about a year and a half or two years ago. I should like to have the resolution read.

There being no objection, the resolution was read and ordered to lie on the table, as follows:

No organization in California has as keen an appreciation of natural beauties as the California Camera Club. This organization has always been identified with the movement to preserve natural beauties, and its members, more numerous than any other group of people, have visited the Sierras. At a special meeting of the board of directors held November 10 to discuss the Hetch Hetchy project the following was unanimously adopted:

"Whereas it is the policy of the California Camera Club to take an interest in everything that is for the benefit of the community; and
"Whereas at a recent lecture given under the auspices of this club the speaker directed criticism at the effort of San Francisco to secure a water supply from Hetch Hetchy for municipal consumption; and
"Whereas the views expressed by this lecturer were his own personal views and not those of the California Camera Club; and

"Whereas the members of the California Camera Club are primarily true lovers of nature, and as such believe that the addition of a lake in Hetch Hetchy Valley will enhance its scenic beauties, will cause the development of a system of roads, and will permit visitors a more ready access to the natural beauties of this now almost inaccessible region; and

"Whereas the California Camera Club recognizes that even now the water supply of San Francisco is inadequate and with the growth of the city will become more inadequate; and

"Whereas the water of the Hetch Hetchy is well known to be of the very purest: Now, therefore, be it

Resolved, That the California Camera Club, recognizing that a sufficient and perfectly pure water supply is one of the most valuable assets of any large and growing municipality, desires to express its approval of any action taken toward the securing of the Hetch Hetchy watershed as a permanent source of a municipality-owned water supply."

Mr. PITTMAN. I have another resolution here addressed to the Senate by the California Club of California, which is, I believe, the largest woman's club in California. It is composed of members from all over the State. I should like to have the Secretary also read this resolution.

There being no objection, the resolution was read and ordered to lie on the table, as follows:

Whereas San Francisco has been for 12 years appealing to the Federal Government for such rights in the high Sierras as will enable it to provide the people of the bay counties with a pure and adequate supply of water; and

Whereas the Hetch Hetchy region offers the only source to which San Francisco can look for such an uncontaminated supply as will provide for not only the immediate but the future needs of its people; and

Whereas San Francisco already owns outright more than half the land in the floor of the Hetch Hetchy Valley which will be flooded by the proposed reservoir, and has in good faith spent one and one-half million dollars in the development of its proposed municipal water system; and

Whereas all that San Francisco asks of the Federal Government is the right to construct a dam and the grant of the use as a reservoir of part of the Hetch Hetchy Valley, which will in no wise be impaired in its natural beauty by the creation of a lake; and

Whereas the natural beauties of the Hetch Hetchy region will be made more easily accessible to thousands of nature lovers by the building of roads and trains, which San Francisco will construct into this entire region; and

Whereas human consumption is the highest use to which the Hetch Hetchy water can be put, in that it will safeguard the health and supply the present needs of a community of 800,000 people and the future needs of many times that number: Therefore be it

Resolved by the California Club of California (450 members). That we most earnestly go on record as approving of San Francisco's petition to Congress for the grant of certain rights in the Hetch Hetchy region; and be it further

Resolved, That we declare our firm conviction that human needs are paramount to sentimental objection of so-called "nature lovers," who profess to see in San Francisco's project a desecration of nature, although the work of San Francisco in the high Sierras will in reality bring this wonder region closer to the real lovers of nature and will in no wise impair the grandeur of the scenery there to be found; and be it further

Resolved, That we regret the campaign of misrepresentation that has been made in the effort to prevent San Francisco from obtaining that pure and adequate supply of water to which every community should be entitled; and be it further

Resolved, That we petition the Senate of the United States to grant to San Francisco the rights for which it has so long appealed and which are embodied in the Raker bill, heretofore passed by the House of Representatives of the United States.

Mrs. A. P. BLACK, President.

Mrs. J. S. A. MACDONALD, Secretary.

Mr. PITTMAN. I have here a list of clubs throughout the country that have indorsed the last resolution read. I ask leave to have it printed in the RECORD, without reading.

There being no objection, the matter referred to was ordered to be printed in the RECORD, as follows:

The following have also adopted the resolution:
The Rhode Island Woman Suffrage Association; Elizabeth Upham Gates, president; Sara L. G. Fittz, secretary, 197 Longfellow Street, Providence, R. I.

The Pacific Coast Women's Press Association, San Francisco; Mrs. I. Lowenberg, president; Mrs. W. C. Morrow, corresponding secretary; Mrs. A. J. Stowell, recording secretary.

The North Carolina Society; R. G. Lewis, president; William P. Hubbard, secretary.

The Waitresses' Union, Local No. 48, San Francisco; Gerlie Benton, president; Laura Molleda, secretary.

The civic department of California Club, of California; Mrs. Louis Hertz, president; Mrs. John S. Phillips, secretary.

The South Park Mothers' Club, San Francisco; M. McFarlane, secretary.

The Woman's Club of Redondo Beach; Mrs. John Steward, president; Mrs. Perry Long, secretary.

The Richmond Women's Club; Mrs. E. H. O'Donnell, secretary; Mrs. J. W. Felt, president; Mrs. E. G. Ely and Mrs. F. Menz, executive committee.

The Lois Art Club, of Grass Valley; Edna D. Sampson, president; Mignotte Grant, secretary.

The Thursday Reading Club, of Oakland; Helen L. Courteau, president; Helen H. Barnes, secretary.

The Mountain View Woman's Club; Mrs. Eliza J. Farrell, president; Miss E. J. Stevens, secretary.

To Kalon Club, San Francisco; Maybelle Worth Stevens, corresponding secretary.

The Alta Mira Club, of San Leandro; Gaior G. Aitken, president; Alma Pauline Spurr, secretary.

The Tamalpais Center Woman's Club; Mrs. Margaret Hamilton, president.

The Sonoma Valley Woman's Club; Carrie A. Burlingame, president; Alice Wagon, secretary.

The Woman's Civic Club, San Luis Obispo, Cal.; Mrs. Eliza Miller, president; Grace A. Van Scoy, secretary.
The Laurel Hall Club; Christine Hart, president; Grace Guild Palmer, secretary.

The San Francisco Colony of New England Women; Mrs. G. B. Miller, president; Mrs. Martin C. Walton, secretary.

The Improvement Club of Auburn, Cal.; Mrs. Cora E. Tabor, president; Harriet J. Lewis, secretary.

The Vittoria Colonna Club; Mariana Bertola, president; Irise D. Martini, secretary.

The Monticola Club, Susanville, Cal.; Mrs. Atawa McKinsey, president; Mrs. Ada L. Hart, secretary.

The Western Development Co.; W. S. Gray, president; A. M. Enowold, secretary.

The Texas Club; Dr. R. E. Bering, president; A. J. Hockwald, secretary.

Mr. PITTMAN. I also have here a letter from the State engineer of the State of California as to the legal rights of San Francisco to this water. I ask leave to have it printed also in the RECORD without reading.

There being no objection, the letter was ordered to lie on the table and to be printed in the RECORD, as follows:

STATE OF CALIFORNIA,
DEPARTMENT OF ENGINEERING,
Sacramento, November 12, 1913.

To whom it may concern:

Concerning San Francisco, and San Francisco Bay district and an adequate water supply, the writer believes that the Hetch Hetchy project is the best and also believes that this district is entitled to the best source of supply available.

I am quite familiar with the whole State of California, and have a very full knowledge of the Bay district, having resided there during the past 13 years. As commissioner of public works of the city of Berkeley, it was my duty, in connection with the governing bodies of neighboring cities, to give the matter of water supply considerable study three or four years ago.

Have given a careful reading to the report of a hearing of the Committee on Public Lands of the Sixty-third Congress, first session, H. R. 6281, and had there been any lingering doubt in my mind as to the legitimate claim of San Francisco to this source of water supply it would have been entirely dissipated by the testimony and speeches made at that hearing.

W. F. MCCLURE, State Engineer.

Mr. PITTMAN. I also have here resolutions adopted by the League of California Municipalities, favoring the passage of the Raker bill. I ask leave to have the resolutions printed also in the RECORD without reading.

There being no objection, the resolutions were ordered to lie on the table and to be printed in the RECORD, as follows:

Whereas there is now pending in the Senate of the United States a bill known as the Raker Act, which measure has already passed the House of Representatives; and

Whereas the Raker Act is a grant from the United States to the city and county of San Francisco and the other cities on San Francisco Bay, wherein the subject of the grant is reservoir sites in the Hetch Hetchy Valley, Cherry River Valley, and Lake Eleanor Basin, said sites to be used for the purpose of supplying water to the communities around San Francisco Bay; and

Whereas the needs of San Francisco and adjoining cities are such that immediate relief is necessary to insure adequate supplies of water for domestic purposes: Therefore be it

Resolved, That the League of California Municipalities, representing 185 cities and towns, in its sixteenth annual convention assembled in the city of Venice, does hereby approve the said Raker bill, and respectfully urges its passage in the Senate of the United States.

I hereby certify the foregoing to be a true copy of a resolution adopted by the League of California Municipalities October 10, 1913.

H. A. MASOX, Secretary.

Mr. SMOOT. Mr. President, in connection with the Hetch Hetchy water bill, so called, I wish to give notice to the Senate that I have received many, many thousands of protests against it. I have not felt it proper or right to encumber the RECORD with all these protests, but I am frank to say that I believe I have in my office at least 5,000 letters from different parts of the country protesting against the passage of the bill.

I merely wish to make this statement, Mr. President, because parties protesting to me and noticing that other communications on the subject are put in the RECORD may think that I have neglected a duty. I simply call the attention of the Senate to the fact without asking that the RECORD be encumbered with them.

Mr. WORKS. Mr. President, while we are on this subject I desire to give notice that on Thursday, the 4th of December, I will submit some remarks on the Hetch Hetchy bill.

Mr. GALLINGER. Mr. President, in connection with the observations of the Senator from Utah [Mr. Smoot] I desire to put in the RECORD a statement of the fact that I am also in receipt of almost innumerable letters on the subject. This morning a lengthy article from the pen of Frederick Law Olmsted, Jr., one of the most celebrated landscape gardeners of the world, came to me with a letter asking that I should have it inserted in the RECORD. It is a very long communication. Mr. Olmsted is opposed to the project. I have not felt like asking to have it printed in the RECORD, as I have not asked to have any of the letters on this subject printed.

The matter is to come up for debate very soon, and I will venture to express the hope that letters and resolutions on one or the other side or on both sides of this important question,

inasmuch as we individually receive them through the mail, ought not to encumber the RECORD to a greater extent than is absolutely necessary.

BILLS INTRODUCED.

Bills were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. DILLINGHAM:

A bill (S. 3472) granting an honorable discharge to Franklin Martin; to the Committee on Military Affairs.

A bill (S. 3473) granting a pension to Helen M. Gleed (with accompanying papers); to the Committee on Pensions.

By Mr. TOWNSEND:

A bill (S. 3474) to remove the charge of desertion from the record of Almon L. McNich (with accompanying paper); to the Committee on Military Affairs.

A bill (S. 3475) granting an increase of pension to Charles M. Walker (with accompanying papers);

A bill (S. 3476) granting a pension to Fidelia M. Waffles (with accompanying papers);

A bill (S. 3477) granting an increase of pension to Henry Eaton (with accompanying papers);

A bill (S. 3478) granting an increase of pension to James K. Brooks (with accompanying paper);

A bill (S. 3479) granting a pension to Ambrose A. Link (with accompanying paper);

A bill (S. 3480) granting a pension to Elizabeth A. Tice (with accompanying papers); and

A bill (S. 3481) granting a pension to Henry F. Baldwin (with accompanying papers); to the Committee on Pensions.

By Mr. GALLINGER:

A bill (S. 3482) relating to the sale of bichloride of mercury in the District of Columbia; to the Committee on the District of Columbia.

MILITARY HIGHWAY, EL PASO, TEX.

Mr. SHEPPARD. I introduce a joint resolution and ask that it be read and referred to the Committee on Military Affairs.

The joint resolution (S. J. Res. 81) authorizing the survey and estimate of cost for the construction of a military road from El Paso, Tex., to the mouth of the Rio Grande, was read twice by its title and referred to the Committee on Military Affairs, as follows:

Whereas conditions along the Rio Grande border of the United States have demonstrated beyond question the necessity of a military highway from El Paso to the mouth of the Rio Grande; and

Whereas the difficulty of reaching many sections of this border with troops and munitions of war makes that portion of our country comparatively easy of invasion, exposes many thousands of our people to untold dangers in time of war, prevents the proper policing of the border against smugglers and other lawless classes, and imperils the security both of life and property: Therefore be it

Resolved, etc., That the Secretary of War is hereby directed to cause to be made a survey for such highway at the earliest possible date, together with an estimate of cost.

That for the purpose of defraying the cost of said survey and estimate the sum of \$25,000, or so much thereof as may be necessary, is hereby appropriated out of any moneys in the Treasury not otherwise appropriated.

BUZZARDS BAY BUOY.

Mr. ROOT submitted the following resolution (S. Res. 219), which was read, considered by unanimous consent, and agreed to:

Resolved, That the Secretary of Commerce be directed to inform the Senate what steps have been taken or are contemplated to buoy and mark that part of the public navigable waters of the United States in Buzzards Bay which will become a much-frequented trade route upon the opening of the Cape Cod Canal.

HOOR OF MEETING TO-MORROW.

The PRESIDING OFFICER. Morning business is closed. The calendar under Rule VIII is in order.

Mr. KERN. I desire to inquire of Members on both sides of the Chamber whether any Senator is ready to proceed or will be ready to proceed with the discussion of the currency bill on to-morrow?

Mr. GALLINGER. No Senator is ready to proceed on this side of the Chamber.

Mr. NELSON. In reply to the Senator from Indiana, I beg leave to state that with the exception of the Senator from Nebraska [Mr. Hitchcock], who intends to discuss the bill to-day, I am aware of no Senator on this side of the Chamber who desires to go on with the debate.

Mr. KERN. Then, Mr. President, I move that when the Senate adjourns to-day it adjourn to meet to-morrow at 2 o'clock p. m.

The motion was agreed to.

BANKING AND CURRENCY.

Mr. HITCHCOCK obtained the floor.

Mr. OWEN. May I ask the Senator from Nebraska just for a moment of time? I wish to call the attention of the Senate to the condition of the calendar and to the unanimous-consent

agreements which are on the calendar. One is for December 1, 1913, providing for the disposition of the Hetch Hetchy bill, and the other is for December 8, relating to the Alaska railroad bill. I should like to have it understood that, in so far as those unanimous-consent agreements do not require the time of the Senate, I shall feel it my duty to ask the Senate to consider the banking and currency bill. I suppose there will not be very much time taken up on the Hetch Hetchy bill, and I should be very glad to know from the Senator from Nevada [Mr. PITTMAN], in charge of that bill, what time he anticipates will be consumed by debate upon that measure.

Mr. PITTMAN. Mr. President, at present there are only two addresses noted to be made on that subject. One is by the Senator from Colorado [Mr. THOMAS] for the 3d of December, and the other is by the Senator from California [Mr. WORKS] for the 4th of December. I do not know how many Senators desire to discuss that matter. It is set, however, for the 1st of December, and it may be considered from that time until the 6th, with a unanimous-consent agreement that it shall be voted upon on or before the 6th day of December. Of course it could not be voted on prior to the 4th day of December, because the Senator from California has announced that on that day he will address himself to the subject; but I suggest that it may serve convenience if Senators who desire to discuss the matter will make some announcement as to the time when they desire to discuss it. Then we shall be able to confer with those in charge of the currency bill, so as to notify them of the time between the 1st and 6th proximo that can be allotted to that measure. I simply make this as a suggestion.

Mr. SMOOT. Mr. President, I desire to state to the Senator from Nevada that there will be other Senators than those mentioned by him who will desire to discuss the bill to which he refers.

Mr. PITTMAN. I have no doubt of that at all.

Mr. OWEN. I wish to give notice that, in so far as the time of the Senate may not be required for the discussion of the Hetch Hetchy bill, I shall ask the Senate to proceed with the consideration of the banking and currency bill until 6 o'clock in the evening of each day. It is a matter of the most urgent importance.

Mr. GRONNA. Mr. President—

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from North Dakota?

Mr. OWEN. I do.

Mr. GRONNA. Does the Senator from Oklahoma mean by that to set aside the unanimous-consent agreement for the purpose of considering the currency bill?

Mr. OWEN. No; not at all.

Mr. GRONNA. That is not the Senator's request?

Mr. OWEN. Not at all. The unanimous-consent agreement, I take it, will consume so much of the time as the Senate desires to consume, even if it consumes it all; but, to the extent that it is not used, I wish to give notice that I shall ask the Senate to continue with the consideration of the banking and currency bill. That is all.

Mr. GRONNA. If the Senator from Oklahoma will permit me, I wish to say that my impression is that the six days allowed for the consideration of the Hetch Hetchy bill will be taken up. I do not know how much time I shall take in discussing the bill, but I desire to give notice that I shall wish at least some time to discuss it before it is placed upon its final passage.

Mr. OWEN. I assume that the Senator will speak upon the Hetch Hetchy bill. I only desire to give this notice and also to call attention to the unanimous-consent agreement with reference to the Alaska railroad bill, which involves taking that measure up for consideration; but, having taken it up for consideration, even the unanimous-consent agreement may be laid aside. I understand those in charge of that bill will make no objection to its being laid aside. It is costing the country, in my judgment, in the neighborhood of \$5,000,000 a day to delay the banking and currency bill.

Mr. BRISTOW. Mr. President—

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from Kansas?

Mr. OWEN. I yield to the Senator.

Mr. BRISTOW. I have no desire, of course, to in any way delay the currency bill, but I do not wish it to be regarded that the Alaska railroad bill is to be taken up simply pro forma. I think that bill is just as important legislation as is the currency bill. It is one of the great measures that this Congress ought to pass, and it ought to have been passed before this time. I do not wish anything to interfere with it, and I do not think anything should interfere with it. The needs of Alaska and of the people who live there are more pressing in regard to the

development of that Territory and the construction of railroads than any other measure that is before the American Congress to-day.

Mr. CHAMBERLAIN. May I interrupt the Senator?

The PRESIDING OFFICER. Does the Senator from Oklahoma yield to the Senator from Oregon?

Mr. OWEN. Certainly.

Mr. CHAMBERLAIN. With reference to the Alaska railroad bill I have not heard as yet that there will be any very general discussion of it. I may be misinformed as to that, but I do not think that there will be any disposition to press it against the consideration of the currency bill—that is, there will not be very much discussion of it, I think, and there will be times during the discussion of the currency bill when no Senator will be prepared to discuss it—so that I think there will be ample opportunity to submit the Alaska railroad bill at the time fixed on the calendar. I hope so, at any rate.

Mr. OWEN. Mr. President, I merely wish to give notice to the Senate that, in so far as it lay within the power of the chairman of the Committee on Banking and Currency to press the banking and currency bill, it is the intention to do so, and I wish to ask Senators who desire to speak upon the banking and currency measure to be ready to address the Senate upon that bill at the earliest possible date. That is the only purpose I had in rising.

PLAN FOR A FEDERAL RESERVE SYSTEM.

Mr. NEWLANDS. Mr. President, I desire to give notice that to-morrow I will, if the opportunity presents itself, address the Senate regarding a Federal reserve system, which it is my purpose to present as a modification of the pending bill.

There are three systems that have been considered—first, the central-bank system suggested by Mr. Aldrich; second, the regional-bank system presented by both sections of the Committee on Banking and Currency; and third, a Federal system, which I presented some years ago in opposition to the Aldrich plan, and which I desire to urge now.

I wish to state briefly that I realize the great importance of speedy action upon the subject of banking and currency, but the system which I propose does not involve very material changes in the regional system proposed by the Banking and Currency Committee. It simply means a regional reserve association in every State and the federation of the various State reserve associations in one Federal reserve association at Washington. My view is that we ought to act decisively upon the basic plan that is to control this bill, and that before the discussion closes it will be necessary for the party that is in power to determine through a party conference what that basic plan shall be. When that determination is reached, the details can be easily adjusted. I believe that any of the plans proposed are superior to the existing system, and that the commercial and industrial conditions of the country require very speedy action.

I do not propose the modification suggested as a means of delaying consideration or action. I am ready at any time to acquiesce in any basic plan which has the assent of the majority of this body, but I should like to present the plan which I have advocated before and which I advocate now, and have it fully considered. It embraces simply the following suggestions, namely: First, the strengthening of the individual banks of the country engaged in interstate commerce, whether State or National banks, by adequate provisions regarding the relation which their capital shall bear to their deposit obligations and the relation which their reserves shall bear to their deposit obligations; secondly, the unionizing of all banks within the boundaries of a State, whether National or State, that are engaged in interstate commerce in a State reserve association through which one-third of their reserves can be unionized under the control of this association and so mobilized as to enable them to be used with advantage and with purpose at any point of attack within the State where a panic or a stringency threatens; third, to provide for a Federal reserve association at Washington, the members of which shall be the State reserve associations, with which shall be deposited one-third of the reserves that are deposited with the State reserve associations, and which shall have the deposit of Government funds and the power to issue Federal reserve notes.

Under this system about one-third of the entire reserves of the country, aggregating in all one billion and a half of dollars, namely \$500,000,000, would go into the various State reserve associations and would be held there in a mobilized form. Of this \$500,000,000 one-third would go to the Federal reserve association at Washington, giving it \$166,000,000 of concentrated reserves, which it could use provided the local difficulty reached proportions beyond the control of a State reserve association and assumed interstate or national proportions. That

\$168,000,000 would be supplemented by nearly \$300,000,000 of Government deposits and the power also to issue Federal reserve notes. Under this system the power of rediscount would be given to the State reserve associations with reference to their member banks, and the power of rediscount would be given to the Federal association with reference to its member State associations. That power could be extended, if thought advisable, to individual banks.

A SYSTEM IN HARMONY WITH OUR SCHEME OF GOVERNMENT.

Under such a system, absolutely in harmony with our scheme of government and our political system, we would have the federated powers of the banks in every State in local associations for the purpose of meeting local difficulties and the federated powers of all the local associations exercised in one Federal association for the purpose of meeting difficulties which are likely to become of interstate and national extent and character.

I wish to call attention to the fact that this plan would also embrace no requirement of capital whatever from any of the member banks of the country, but would simply apportion between the State reserve associations and the Federal reserve association the reserves which the local banks both National and State are required to keep under the law. I offer the following resolution embracing the modification suggested, and which I request shall be read. I also request that it be printed and lie on the table. I will address the Senate upon this resolution at to-morrow's session.

There being no objection, the resolution (S. Res. 220) was read and ordered to lie on the table, as follows:

Resolved, That it is the sense of the Senate that the pending banking and currency bill should be modified by providing—

First, That within five years the capital of every commercial bank, National and State, engaged in interstate commerce shall be required to be equal to at least 12 per cent of its deposits, and that acceptance of deposits beyond this proportion shall be forbidden, except upon a proportionate increase of capital.

Second, That within five years the reserve of such banks shall be required to be equal to at least 12 per cent of the deposits, except in reserve cities, where it shall equal 15 per cent.

Third, That of such reserve held by county banks one-third may be deposited in reserve city banks and in central reserve city banks.

Fourth, That of such reserve one-third shall be deposited in the State reserve associations hereafter referred to.

Fifth, That there shall be organized in every State a State reserve association, in which the membership of all commercial banks, both National and State, shall be compulsory, as a condition of the continued existence of the national banks and of the privilege of continuing in interstate commerce as to the State banks.

Sixth, That each member bank shall deposit and forever maintain in such State reserve association at least one-third of its cash reserve. Such State reserve association shall have powers of supervision and regulation of its member banks, and also the power of rediscount of commercial paper, guaranteed by the member bank; the reserve of such member bank to stand as additional security for its guaranty.

Seventh, That a Federal reserve association at Washington shall be organized, whose members shall be the State reserve associations; that each of such member association shall deposit and forever maintain in the Federal reserve association one-third of the reserves deposited with it by the member banks; that such system shall also provide for the deposit in such Federal reserve association of Government funds, and also for the issue to it of Federal reserve notes.

Eighth, That power be given to such Federal reserve association to rediscount indorsed commercial paper held by any State reserve association and indorsed by it, and to use therefor the cash deposited by the member associations, the Government funds deposited with it, and the Federal reserve notes.

Mr. OWEN. I ask unanimous consent that House bill 7837 be now laid before the Senate.

There being no objection, the Senate, as in Committee of the Whole, resumed the consideration of the bill (H. R. 7837) to provide for the establishment of Federal reserve banks, for furnishing an elastic currency, affording means of rediscounting commercial paper, and to establish a more effective supervision of banking in the United States, and for other purposes.

Mr. HITCHCOCK obtained the floor.

Mr. SMOOT. Mr. President—

The PRESIDING OFFICER. The Senator from Nebraska [Mr. HITCHCOCK] is entitled to the floor.

Mr. SMOOT. Will the Senator from Nebraska yield to me for just a moment?

Mr. HITCHCOCK. Certainly.

Mr. SMOOT. Mr. President, I notice that the amendment intended to be proposed by the Senator from Nebraska [Mr. HITCHCOCK] to H. R. 7837 has not been printed in bill form. I have had a number of requests for it, and have been unable to obtain a copy.

Therefore I ask, if the Senator does not object, that the usual number of copies of the bill H. R. 7837 be printed in bill form, showing the changes suggested by the amendments intended to be proposed by the Senator from Nebraska [Mr. HITCHCOCK].

There being no objection, the order was agreed to, and it was reduced to writing, as follows:

Ordered, That the usual number of H. R. 7837, "An act to provide for the establishment of Federal reserve banks, to furnish an elastic

currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes," be printed in bill form, showing the changes suggested by the amendments intended to be proposed by the Senator from Nebraska [Mr. HITCHCOCK] and as shown in Senate Document 242, Sixty-third Congress, first session.

Mr. HITCHCOCK. Mr. President, we have now begun the consideration of what is likely to prove the most important legislation that has been before Congress for many years. It would be hard to overestimate the great changes in banking circles and in the business world which may be produced by the bill now before us. It affects primarily, of course, and directly the 25,000 banks of the United States, large and small. It affects their tens of thousands of stockholders; and it affects, also, their vast number of borrowers and their unnumbered depositors. It would be hard, indeed, to find any class of society, whether employers or employed, whether rich or poor, not affected by this bill. It affects also the credit of the United States. It affects our international relations through the channels of commerce, and it is likely to affect to a large degree our position in the finance of the civilized world.

I have felt, Mr. President, from the very start, that the possibilities of this legislation are too vast to justify hasty action; and I rejoice that after two months of thorough discussion and consideration in committee the pending bill is to be subjected to the acid test of a public debate in the Senate of the United States.

First, Mr. President, let me draw attention to the genesis of this bill, its evolution, and its present condition. Banking and currency reform has been the subject of agitation in the United States for many years. There has been a growing realization that our banking and currency system was lacking in certain respects. This sentiment has been in part academic, being led by political economists and publicists, but in part it has also been practical, having the anxious support of banking interests which have been pinched by several currency stringencies and shaken by several bank panics.

Possibly this condition of agitation and discussion might have continued for some time had it not been for the action of President Wilson in bringing the matter before Congress, thus making banking and currency reform an administration measure. In so doing, the President has merited and received the praise of the whole country. His wisdom and his courage in bringing this needed reform to a practical issue is to be highly commended. Nothing less than presidential influence would have made banking and currency reform possible for some time.

I yield this tribute to the President of the United States the more readily because I have frankly opposed and criticized him when he urged hasty action, which I deemed dangerous.

The bill before us reached the Senate on the 18th of September, having passed the other House after several months of discussion in committee, caucus, and in the full House. As I look upon it now, Mr. President, I am disposed to think it somewhat remarkable that the House succeeded in sending to the Senate so good a bill, considering the difficulties of the situation. In the first place, it was formative and original legislation. It dealt with a difficult problem which to some extent has puzzled the civilized world for many years. It was pushed through the House in a hurry. It is but fair to its authors to say that it represented much hard work, great study, and original thought. To some extent, of course, it was an adaptation of the European system of a central bank, with such modifications as political exigencies and American institutions made necessary.

But, Mr. President, excellent as the bill was, it contained some very serious defects and some fundamental errors. Had these been enacted as they came from the House most serious consequences might and probably would have followed. The best proof that the House bill needed revision is found in the fact that every member of the Banking and Currency Committee, which has examined the bill and considered it for two months, voted for changes which amount in the aggregate to more than one-half of the original measure.

I have caused an examination to be made of the bill as Senator OWEN and his section of the committee proposed to amend it. I find that 60 per cent of the bill as he now recommends it to the Senate is new or rewritten matter, while only 40 per cent of his bill appears as it originally passed the House. In other words, the bill he presents is 40 per cent old and 60 per cent amended. In the case of the report which I have had the honor to make on behalf of six members of the committee, 64 per cent is the new or revised matter, and 36 per cent is the original matter of the bill. Thus, Mr. President, do both wings of the committee concur quite closely as to the proportion of the bill which should be changed.

I say this with no spirit of criticism of the bill, for I have already stated my belief that considering the circumstances and

the difficulties the bill which was passed by the House showed great constructive genius.

It is perhaps fortunate, Mr. President, that Senator OWEN's section of the committee and the section of the committee which I have the honor to represent have to a considerable extent proposed amendments to the same sections. If it had chanced that we had selected different sections to amend, I fear there would be no part at all of the original House bill here for consideration. It then would have presented somewhat the spectacle that was presented by the farmer boy's trousers when he awoke in the morning to try them on. Upon going to bed at night he had asked his mother if she would not please cut off an inch of his new trousers, as they were too long. She had pleaded that she had too much to do. He had then asked his sister to do so, and she had some excuse. Then he had asked an aunt to do so, and she had an excuse. So finally the poor boy went to bed feeling that his trousers would still be too long in the morning. But one after another these members of the family relented, and out of sympathy they each cut off an inch of the boy's trousers; so that when he awoke to try them on in the morning they were very much shorter than they really ought to be. [Laughter.]

Such, I think, possibly would have been the condition of the House bill if it had not happened that Senator OWEN's section of the committee and the section which I represent applied our amendments largely to the same portions of the bill.

Now, Mr. President, we come naturally to the points of difference between the section of the committee which I represent and the section represented by the chairman, Mr. OWEN. I shall not go into the circumstances or the causes which led up to a split of our committee. At the present time I shall content myself by testifying my esteem for and good feeling toward the chairman of the committee. I have not hesitated to differ with him in the consideration of the pending bill; but I desire in this public way to testify my appreciation of his great industry, his remarkable patience under irritating conditions, and his equally marked ability.

Mr. President, I do not think it a misfortune that this measure is brought to the Senate by an equally divided and equally balanced committee, presenting sharply defined issues. On the other hand, I think it a highly favorable start to make. I think the Senate will be in a position to consider the bill with better results in prospect than if we presented to you a unanimous and compromise report, because the Senate can now judge, after the two sides have been duly and properly presented, which of the differing views is the one most likely to lead to favorable results.

The first matter of difference between the two sections of the committee is in the number of reserve banks. The House bill proposed to divide the country into 12 districts, and to establish in each a regional reserve bank. The hearings had not progressed far when every member of the committee realized that to cut up the country into 12 districts and to establish 12 regional banks meant to defeat the very purpose of the legislation, which is to mobilize the banking reserves of the United States for the common use of all the land. So instead of 12 regional banks, as proposed by the House, Senator OWEN's section of the committee has presented to you 8 regional banks, and the section of the committee which I represent presents to you for your consideration an amendment to establish 4 regional banks, and 4 only.

The agitation for banking and currency reform in the United States has always led us to look upon the countries of Europe, where bank panics are practically unknown, where the rate of interest has few fluctuations, where the discount of commercial paper is easy, and where the currency has an elastic character, expanding at the seasons of the year when business requires it and contracting as credits are reduced. Looking at those countries and taking, for instance, Great Britain, France, and Germany we find that each has a central bank, and we find that in each the deposits of all the banks are mobilized and concentrated into the central bank. We find a central reservoir in each of those countries, drawn upon at all times by all the banks in case of necessity. So if there is any lesson at all to be learned from the experience of European countries it is that the mobilization of reserves is perhaps the one greatest need above all others.

In Great Britain the Bank of England performs the function of a central bank. In that case it is mobilization and nothing else which enables the Bank of England to control the gold supply, to regulate the rate of interest, to supply the great joint-stock banks with necessary funds, and to perform generally the functions of a central bank. It has no note-issuing power except against gold.

We go to France, and we find a central bank, the Bank of France, under Government control; and in the Bank of France we find mobilized all the reserves of all the banks of France. We find the Bank of France endowed with the power to issue currency in case of need to banks that discount their paper with it.

We go to Germany, and we find a similar condition. The great Reichsbank of Germany, established almost within our own recollection, performs for Germany the functions which the Bank of France performs for France. It holds the reserves of the great banks of Germany, discounts their paper, supplies them with currency, hoards the gold in a central reservoir, controls the rate of interest, and influences the gold supply.

Now, I say if we are to profit by the experience of Europe we must in adopting a system adopt a system that will accomplish some of the things that are accomplished by those central banks.

Mr. President, I do not believe, and I doubt whether it can be shown, that it will be safe to attempt to mobilize the reserves of the banks of the United States with any number of reserve banks greater than 4. There is no more logical argument for 8 banks than for 10 or for 12, and there is an argument and a reason for 4.

In the first place, we have three great central reserve cities of the United States to-day—New York, Chicago, and St. Louis. In those cities are concentrated a large portion of the reserves of the American banks. Gradually there has grown up a banking custom and a commercial habit which have fixed those three great cities as the reserve centers. They have their tributary territory, and it is natural to establish in each of them a great reserve bank. The great distance of the Pacific coast cities renders it highly desirable, if not necessary, that a reserve bank should be established on the Pacific coast. San Francisco is the natural point.

Mr. President, no one claims that the aggregate capital of the reserve banks of the United States, however many we establish, can be or ought to be more than about \$100,000,000. There is substantial agreement upon that point. Divide the \$100,000,000 among four great reserve banks, and in the natural proportions of capital and surplus you will have a great reserve bank in the city of New York with about \$50,000,000 capital and \$350,000,000 of deposits, a bank so large and so powerful that it will compare favorably with any of the great banks of Europe, and large enough in international transactions to hold its own with any of the great institutions of the Old World.

Coming to Chicago, the natural division of the territory will make it possible to organize in Chicago a reserve bank with \$29,000,000 of capital and \$200,000,000 of deposits to serve a territory that is naturally tributary to Chicago.

Coming to St. Louis, and taking also again the banks organized in the St. Louis territory, we find that a bank can be organized there with about \$16,000,000 capital and something like \$100,000,000 of deposits.

Going farther, to the Pacific coast, it will be possible in San Francisco to organize a bank of \$10,000,000 capital and about \$65,000,000 deposits.

Now, can anyone tell what is to be gained by cutting up that territory into smaller units, demobilizing the reserves, when our purpose is to mobilize them?

Moreover, my friends in the South and the West and in the central part of the United States should remember this. New York constitutes an irreducible minimum. No matter how many reserve banks are organized in the United States, the reserve bank of New York City will not be less than \$40,000,000 of capital and about \$300,000,000 of deposits. The subdivision of the country into a larger number of reserve banks will simply result in magnifying New York and reducing to insignificance the rest of the reserve banks of the country.

I want to draw attention to a comparison of the practical operations of a large reserve bank, covering a great area of territory, and a small reserve bank in a limited region. Suppose, for instance, we should have a regional reserve system of eight banks, with one established at the city of New Orleans, in the heart of the cotton country. The time comes to move the cotton. An enormous sum of money is required. Every bank in that district would be affected by the same cause. Every bank in that district would want money at the same time, and almost immediately the balances in the reserve bank of New Orleans would be drawn down to the very minimum and still be unable to accommodate their customers, and that reserve bank would be compelled to apply to the Federal board for asset currency. What is true of New Orleans would be true of a bank in the corn country and a bank in the wheat country and a bank in the manufacturing center of New England.

On the other hand, if you have a great reserve bank at New York, having the territory extending down the Atlantic coast and possibly reaching New Orleans, or if you have a bank in St. Louis extending down through the great Mississippi Valley and reaching New Orleans, whichever way the Federal board might arrange it, when the banks of the cotton country at the proper season desired currency, desired a discount of their paper in order to serve their customers, they would procure it from the great reserves of the great bank in St. Louis or New York, at a season when the other customers were not demanding money, when there was an accumulation of reserves from the manufacturing regions or from the mining regions, which reserve bank would be able to discount the paper of the cotton-country banks simply by the use of money actually on hand.

So I say that the result of dividing this country into eight reserve districts instead of four would be to magnify the demand for currency, and any number of small reserve banks would be calling for currency of the Federal board here at Washington when there would be idle funds in other parts of the country. It is a matter of mobilization, the very thing we are attempting to escape by passing this legislation.

Now, Mr. President, I come to the next item of difference, which is the control of these reserve banks. The section of the committee to which I belong proposes that the Government of the United States, through its Federal board, shall select five of the directors of each reserve bank, and the bank of the district shall select four. We defend that upon the ground that this reserve bank is established as a public utility. It is not to make money; it is to protect the depositors against loss; and it is to give the borrowing public a stable and uniform low rate of interest.

We realize that the banking interests should be represented upon each board, because the banks have their reserves in these reserve banks, and by giving them the power to elect four members they will have sufficient representation of their own selection there to cooperate with five men chosen by the Federal board.

We think, Mr. President, that it is an unwise experiment to create a banking trust in the United States, and therefore we come to another point of difference with the section of the committee represented by Senator OWEN. He proposes, as the House proposed, although in a slightly modified form, that the reserve banks shall be owned by the individual banks. We think that would be a mistake for several reasons. We think it would tend to build up a banking trust in this country. We think, moreover, it would tend to endanger the success of this system, because there are many thousands of banks in the United States whose capital is now earning 10, 12, and 15 per cent, and they do not want to take one-tenth of their capital out of their own community and put it into a reserve bank where it is limited to earn 5 or 6 per cent and where it is beyond their control.

So we say that public ownership is desirable not only because it is a poor investment for the banks but because it is a good investment for the people of the United States. We propose that each bank shall be required to underwrite its proper share of the stock in the regional bank and for 60 days offer it to the public. We believe the public will take it. A 5 per cent investment in a Government institution of this sort, particularly if there are only four regional banks, will in all human probability prove a good one. Five per cent dividends can be earned with four regional reserve banks, and people who are receiving only 3 and 4 per cent, or possibly 5 per cent, on investments now will gladly take this stock, using sometimes also funds which they have hidden away. They will take this stock because it carries a 5 per cent cumulative dividend and also because it is made free from all taxes, National, State, and municipal. And so, Mr. President, we propose public ownership of these banks, which are public utilities, and Government control for the same reason.

I realize that if we are to have eight regional banks public ownership is almost impossible, because the puny and weak banks which would inevitably be organized if we had as many as eight would in all human probability not pay a dividend. They might not pay operating expenses.

The next point of difference to which I come is not so great, although I think it is important, and that is the matter of reserves. The section of the committee which I represent recommends that the reserves required of the individual banks of the country shall be 12 per cent for country banks and 15 per cent for city banks. We suggest that four-twelfths of the country-bank reserves shall be required to be placed in the reserve banks, four-twelfths kept in their own vaults, and the remaining four-twelfths of the reserves kept in either place, at the country bank's option. With city banks we recommend that the

15 per cent reserve shall be kept, six-fifteenths in the regional banks and the remainder in their vaults or in the regional banks, as they prefer.

The chief change, however, which we have recommended in this section relates to the transfer of reserves. It should be remembered that the reserves at the present time are deposited in 350 national banks, in 47 reserve, and 3 central reserve cities. This bill will require the transfer of those reserves into new banks. When the order of transfer comes it would be a serious matter for this country, and likely to produce a shock which might result in a panic, if the transfer is made so sudden or so rapid as to compel the banks to call their loans in order to get the money to make the transfer with, because these banks in central reserve cities have not kept the funds idle. They have loaned them out, and if they are to turn them over to the reserve banks they must call in their paper in order to get the money to turn over. So we have provided that the transfer from the country banks to the reserve banks shall cover a period of 24 months, one-fourth each 6 months, and we have provided for city banks a similar gradual transfer of 1 per cent each 6 months.

We believe that this will avoid the awful shock that would have been produced had the provisions of the House bill been carried out, a shock which the banks of the country have evidently dreaded, because they have been accumulating cash and calling loans for the purpose of meeting it, and have therefore produced a stringency which is already felt all over the United States.

The next item of difference to which I desire to call the attention of the Senate is in the discounting of paper for member banks. As the bill came from the House, everything was left optional with the regional bank. A bank might offer paper for discount, and the directors of the regional bank might say, "No; we will not take it." Another bank might present paper for discount, and the directors of the regional bank might take the whole portfolio. There was danger of gross discrimination on one side and great favoritism on the other. So, to guard against that, we have provided that every individual bank, as a matter of right, shall have the privilege of discounting eligible paper to the amount of its capital stock. That is a moderate discount. That is a discount which is common under the present practice to-day, an amount of discount paper equal to the amount of its capital stock. We have provided that no bank shall be permitted to discount paper at any one time in excess of twice its capital stock. Thus we have guarded against favoritism on one side and discrimination on the other, and we have left a period for the discretion of the board of directors. But in order to check undue discount we have provided that whenever a bank discounts more than the amount of its own capital stock it shall pay a higher rate of interest, which of itself is an automatic brake on excessive discounts.

There is, then, another difference, in the character of paper as provided in the House bill, which limited the maturity of paper to 90 days.

Mr. BRISTOW. Mr. President—

The PRESIDING OFFICER (Mr. STERLING in the chair). Does the Senator from Nebraska yield to the Senator from Kansas?

Mr. HITCHCOCK. I do.

Mr. BRISTOW. The Senator will remember that there is a provision also that where a bank desires to discount to an amount more than twice its capital stock by obtaining permission from the Federal board the regional bank can increase the discount beyond double the amount.

Mr. HITCHCOCK. Yes; that is an omission I made which I am glad the Senator from Kansas has called to my attention. It is possible that there might be an emergency—a run upon a bank might produce an emergency and cause a need for a great supply of funds. In that case the Federal board has power to order the reserve bank to discount additional amounts of paper for that bank so that it can meet the emergency.

Mr. SMOOT. Without a penalty?

Mr. HITCHCOCK. That is left discretionary with the board, and, I think, properly so. As the bill came from the other House the discount privileges for banks were practically so restricted and limited that they could be used only by the city banks; that is to say, they were limited to paper which had a maturity of 90 days. We found, by taking testimony, that there were thousands of banks in the South and in the far West that take paper for six months, and that they are just as much in need of discounts, and they are contributing as large a portion of their resources to this system as are the city banks. So we have provided that a limited amount of paper having a maturity of six months may be taken.

The six months' paper is just as legitimately a commercial paper as is the 90-day paper of the East, where the processes of

manufacturing and mercantile business are perfected in 90 days, and the man who gives his note for 90 days is able to pay it out of the proceeds which come from the sale of his property, his stock. In the West the man who buys cattle to feed during the winter months and borrows money for the purpose of buying them is not able to meet his paper in 90 days, but at the end of six months his paper is liquidated just as naturally, just as fully, and just as freely as is the mercantile and manufacturing paper of the East. The same conditions exist in the South. So we have provided in our bill that a limited amount of six months' paper may be taken, and that of the paper which a bank discounts not more than one-half of it may have a maturity exceeding 90 days.

On the rate of discount there is a considerable difference between the two wings of the committee. It is not a difference which appears in the bill, but it is a difference which will appear in operation. Each regional reserve bank may have a different rate of discount. If you have eight regional reserve banks it is inevitable that the regional reserve banks in the South, in the West, and in the Central West will have a higher rate of discount, because that section of country naturally commands a higher rate of discount. If you have only four regional reserve banks, you have only four rates of discount.

It is natural to suppose that the rate of discount in New York for the whole New York area, the rate of discount in Chicago for her whole area, and the rate of discount in St. Louis for her vast area will be very nearly the same rate of discount. San Francisco, by reason of entirely different surroundings, might have a higher rate of discount, but the bill as we propose it with only four regional banks will almost inevitably result in making a flat rate of discount for the whole country. The rate of discount in Chicago will not be higher to any degree than that in New York, and the rate of discount in St. Louis will not be higher than that in Chicago. So I say that, so far as the borrowing world is concerned, it is much better to have four regional banks with a practically flat rate of discount than to have the larger number with a higher rate of discount by reason of local conditions.

Now I come to a difference which is quite radical in the two bills.

Mr. BACON. Mr. President, may I ask the Senator a question?

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from Georgia?

Mr. HITCHCOCK. I do.

Mr. BACON. I am not familiar with the bill and am asking for information not only as to the bill presented by the wing of the committee represented by the Senator from Nebraska, but generally as to the bill. Does this bill provide a rate of interest at which banks shall be required to loan to private borrowers?

Mr. HITCHCOCK. No.

Mr. BACON. I did not suppose the bill did so provide, of course, but I asked that question, having reference to the last statement made by the Senator as to the advantage to the people of my section of the larger regional banks. How would the rate of interest be to the advantage of the private borrower if it did not affect him?

Mr. HITCHCOCK. I will illustrate that to the Senator. I am hurrying along and condensing a good deal, so that I have not elaborated. With a great regional bank, with enormous deposits and great reserves, it will be in the same position as is a central bank in Europe, able to buy paper on the very closest margin, to allow the bank which discounts the paper to do so at the least possible loss, and the bank, being able to practically turn its commercial paper into money at almost no sacrifice, will be able to extend its borrowing to its customers at a lower rate of interest in consequence, and always able to get additional funds to loan to its customers. It will not be compelled to say to John Smith when he comes, "We can not lend you this money because we are down to our reserves." It will be able to say, "Yes, we will take your paper if it is good." So the establishment of great reserve banks with enormous resources will mean in this country, as it has meant in Europe, not only a very low rate of interest, but a rate of interest which will have very few changes from season to season.

Now, Mr. President, I come to the matter of the division of the profits of these reserve banks. We feel confident in our section of the committee that, with four regional banks, they will not only pay operating expenses, earn 5 per cent dividends for stockholders, and accumulate the 20 per cent surplus which the bill requires, but that they will have profits over and above those requirements. Then we propose that one-half of those excess profits shall go into the Treasury of the United States as Uncle Sam's share for the use of his deposits. The other half we pro-

pose shall constitute a trust fund for the insurance of the depositors of the member banks which fail.

Mr. President, we are establishing this system for the purpose of preventing bank failures. We believe that it will largely accomplish that purpose; but occasionally there will be a bank which, either through mismanagement or misfortune, will go down. When it goes down, its depositors will be reimbursed out of this accumulated fund, a fund not raised by the taxation of other banks, but a fund produced by the use of the depositor's money in the reserve banks; and we believe that the establishment of this fund will add another note of confidence to this new system which we propose to establish and that it will render bank runs absolutely impossible.

Mr. THOMAS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from Colorado?

Mr. HITCHCOCK. I do.

Mr. THOMAS. I consider that feature of this bill—I mean the one which is recommended by the Senator's section of the committee—as one of its most admirable and necessary features, but I should like to ask, in that connection, whether the bill makes proper provision, or any provision, for giving the reserve banks a lien upon the assets of the failed bank, the bank which suspends, for the purpose of reimbursing its guaranty fund? If not, it seems to me that that is a subject which should be treated by way of amendment to the bill before it is finally determined upon.

Mr. HITCHCOCK. Mr. President, in reply to the Senator from Colorado I will say that no such provision is made. Although the evidence may seem to be against us, we have really endeavored, so far as possible, to make as few changes in the House bill as might be. I think the suggestion of the Senator from Colorado, however, is worthy of consideration. I should like to see him elaborate it with some amendment for further consideration of the Senate when that section is reached. We merely endeavored to put into the bill the principle, to make use of a fund which was there, and any elaboration or perfection of the idea will be very welcome, I assure the Senator from Colorado.

Mr. SMOOT. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from Utah?

Mr. HITCHCOCK. I do.

Mr. SMOOT. In hurriedly reading the bill last night my attention was called to this particular subject. As I remember, there was to be no limit to the amount set aside for guaranteeing deposits, or, in other words, if the bank proceeds to run for 20 years and proves profitable—and I believe it will be profitable—one-half of all the actual gains made, after paying 5 per cent to the stockholders and after providing a 20 per cent reserve, may amount to an exceedingly large sum. Has the Senator thought of any limitation as to the amount collected for that purpose, or does he think it best to accumulate that vast sum of money and let it grow continually?

Mr. HITCHCOCK. No. Mr. President, the section of the committee cooperating with me considered that, as the Senator from Utah has stated, in the course of time this fund might grow to excessive proportions; and I think the Senator will find in the bill a provision that, if it becomes excessive, the reserve board may discontinue it until such time as its replenishment becomes necessary.

Mr. BRISTOW. Mr. President, if it will not interfere with the Senator's discussion, I will be glad to read the provision in the bill on that very point. On page 37 of the print which I have, in line 10, the amendment provides:

When, in the judgment of the board, there has been accumulated in such depositors' insurance fund a sufficient sum fully to insure the payment of the depositors of insolvent member banks, the board shall have power to suspend the setting aside and accumulation of the said 37½ per cent of such earnings, and thereafter such 37½ per cent of such earnings shall be paid to the United States.

Mr. SMOOT. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield further to the Senator from Utah?

Mr. HITCHCOCK. I do.

Mr. SMOOT. That covers the exact point. I missed it last night in reading the bill. I was trying to read all three bills by way of comparison and get all the provisions of the bills in my mind at once, as I thought we had little time to prepare for the discussion.

Mr. HITCHCOCK. Mr. President, the next matter of difference relates to the issue of currency. We have proceeded naturally in the consideration of this matter up to a point where the reserve bank has loaned out of its cash reserve all that it can safely advance to the bank and there is still a demand of mem-

ber banks for the discount of paper. Then the House bill provided that the Federal reserve bank might apply to the Federal reserve board for currency, and it left it in the power of the Federal reserve board to grant or to refuse the application. Our bill makes a radical departure from that. We provide that when a Federal reserve bank in all respects complies with the law by maintaining a 45 per cent gold reserve against note issues, by maintaining a 35 per cent reserve against deposits, and by obeying the regulations of the Federal board and other provisions of the act, then when it presents eligible paper to the agent of the Government, the Federal reserve board shall issue the currency which the needs of the business require. That is necessary, because we have given the right to each bank to secure a discount of paper to a certain extent. It is necessary to carry out the purpose of this legislation. It is unheard of in France, for instance, that the Bank of France will refuse to discount eligible paper, and it is practically unheard of in Germany under the system of the Reichsbank. So, we have provided that the reserve board shall issue currency when it is required by the reserve banks.

It should be remembered that this is in entire harmony with the genius of this legislation. Each reserve bank is a part of the Government; each reserve bank is controlled by the Government; each reserve bank is a public utility and responding to the natural demands of business; and, so, when the time comes that it needs currency, we feel that it should secure it from the Federal reserve board, providing it deposits 100 per cent of good commercial paper and maintains the 45 per cent reserve of gold against the currency.

There is, however, a restraining power which the Federal reserve board in Washington holds. At any time it can order a Federal reserve bank to raise its rate of discount. That power enables it to put a restraining hand upon the reserve banks, which will then raise their rate of discount to member banks, and the member banks will raise it to their customers, and that will check the excessive inflation of bank credit.

Mr. President, there is another quite important change which we have made in this bill, to which I desire to call attention. As the bill came from the House it provided for a reserve against currency of 33½ per cent. In my opinion that is inadequate. It is inadequate if we judge by the great reserves kept by the banks of Europe; it is inadequate if we judge by the great gold reserve which we have been compelled to accumulate in the Treasury against our own greenbacks—42½ per cent. So we have provided that the reserve against currency shall be 45 per cent.

Mr. President, we have changed the provision regarding the redemption of the Federal reserve notes. As provided in the House bill, the new bank currency might be redeemed in gold or lawful money. We think that unsound; we think that this new currency should not be paid in anything but gold. We do not think that the Government of the United States in issuing its obligations, its promises to pay, should reserve the right to pay those obligations in other obligations. We do not think it should permit banks to reserve the right to pay their obligations in other obligations. So we have stricken "lawful money" from the section of the bill relating to the redemption of the new currency and have provided that it shall be paid in gold or gold certificates.

Senator OWEN's bill is, in a measure, a compromise between the two. It provides that the new currency shall be redeemed in gold at the Treasury of the United States when presented, but that it may be redeemed in gold or lawful money at a reserve bank, a distinction which I am not able to understand, but which, it seems to me, might throw a great burden upon the Treasury of the United States.

We have also provided that the reserve banks must keep in the Treasury in gold at least 5 per cent of their note issues, to be used in redeeming notes that are presented there. We have also provided that the Secretary of the Treasury may compel them to increase this amount to 10 per cent if the needs of redemption require it.

In the matter of reserves against deposits we have made a change. The House bill provided for a reserve of 33½ per cent against deposits. We have raised that reserve to 35 per cent, but have taken away its rigid character by providing that reserve banks may permit their reserves to fall below 35 per cent down as low as 25 per cent in cases of emergency to give relief to member banks; but for each 2½ per cent deficiency the reserve banks are required to pay a tax or penalty of 1 per cent, which is to be in turn charged to the banks borrowing the money, which will be a check upon those banks.

In the matter of the refunding of bonds quite a radical change has been made in the House bill. We have outstanding at the

present time some \$750,000,000 of 2 per cent bonds, largely owned by the national banks of the country and by them deposited in the Treasury as security for the notes which the banks issue. It seems to be desired to retire this currency. At times it is considered redundant. It can not be retired under the present system. So Senator OWEN's section of the committee and the one I represent have united in proposing a scheme different from that of the House bill. The one which my section of the committee has proposed provides that after the reserve banks are organized each reserve bank shall begin the purchase of 2 per cent bonds at par, with accrued interest. This is not done for the benefit of the banks. It is done to maintain the credit of the United States, for the reason that the 2 per cent bonds are now selling below par. Each bank is required to purchase each year an amount of the 2 per cent bonds not exceeding one-half of its capital stock. When it has purchased them it may present them to the Treasury of the United States and secure from the Treasury 3 per cent one-year gold notes. Those notes it may keep in its treasury as an investment. The 3 per cent interest will make the notes a fair investment for some of the surplus funds of the reserve banks. It is designed particularly, however, to give the reserve banks this great quantity of 3 per cent one-year gold notes so as to equip the reserve banks with a means of securing gold. It is an adaptation of the experience of European countries in the use of exchequer bills or treasury notes.

A reserve bank holding, say, fifty or seventy-five million dollars of these one-year 3 per cent gold Treasury notes finds that the gold supply of the country is becoming depleted. It finds that by reason of some great foreign war or some great emergency gold is being withdrawn from this country and that possibly some impairment may come to the banking interests of this country on that account. It can then sell those 3 per cent gold notes abroad or in this country and procure gold for them, which it will hold in its vaults or use in its business as a necessary basis of credit.

In one year those notes, of course, come due; but we provide in our bill that the reserve banks shall be under a contract with the Treasury to renew them year by year for 20 years if the Treasury desires. The Treasury may retire them from time to time, but if the Treasury desires to have them renewed the banks are under compulsion to renew them. They will constantly have use for them, for the purpose of selling them abroad to procure gold from time to time.

It may be said that this is substituting a 3 per cent note for a 2 per cent bond, and therefore may subject Congress to criticism. I have been a little slow to come to any action of that sort, but I have been reconciled to it not only by the fact that it is useful to control the gold supply of the country, but also by the fact that the Government of the United States gets a large part of the net profits which these banks are to make, and those profits act as an offset to the 1 per cent additional interest on the notes.

Mr. President, I have covered this subject somewhat hastily—

Mr. BACON. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from Georgia?

Mr. HITCHCOCK. Certainly.

Mr. BACON. I understood the Senator to say that the bond matter, about which he has just spoken, is one upon which both wings of the committee agree. Is that true?

Mr. HITCHCOCK. There is agreement in the purpose, but in carrying out that purpose there is considerable difference between the two wings of the committee. I shall not undertake at this time to explain the plan proposed by the other wing of the committee. I am not entirely familiar with it, and hardly feel competent to do so. We think, however, that our plan of proceeding through the reserve banks has the approval of all the better practice. Great Britain encountered some difficulties after the Boer War through selling directly her one-year treasury or exchequer notes. We think it would be a mistake for the Treasury of the United States to undertake to discount its own paper. A bank can do it, and can suffer the loss of one-half of 1 per cent or 1 per cent at times in order to get gold; but it would not be proper for the Treasury of the United States to do it.

Mr. SMITH of Georgia. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from Georgia?

Mr. HITCHCOCK. I do.

Mr. SMITH of Georgia. The Senator says these notes would run for one year?

Mr. HITCHCOCK. One year.

Mr. SMITH of Georgia. Would the effect of that be, as rapidly as the bonds are purchased by the regional banks, to require the Government to redeem them in 12 months?

Mr. HITCHCOCK. No; the regional banks first buy the 2 per cent bonds, and the national-bank currency is proportionately retired. The regional banks then can use these 2 per cent bonds and issue currency against them, or it can present them at the Treasury and secure one-year 3 per cent notes. The 2 per cent bonds in that event are canceled, and the one-year 3 per cent Treasury notes then are in the hands of the reserve bank. It will hold them there as an investment, except at such times as it needs to procure gold to strengthen its reserves. At each maturity each year the bank is under compulsion to renew the note for another year with the Treasury or to accept a new note for 20 years. So the Treasury of the United States has a contract with the reserve banks to renew the notes.

Mr. SMITH of Georgia. It was the necessity for such a provision as the one which the Senator has just mentioned, and which he had not mentioned before, that caused my question. Under your provision the 2 per cent bonds can be used by the regional bank as a basis for the issuance of regional or reserve notes?

Mr. HITCHCOCK. For the issuance of reserve notes; yes.

Mr. President. I have gone over this matter rather hastily, and in so doing I have necessarily omitted a good deal. I think the Senate very deeply for the attention it has given me.

Mr. McCUMBER. Mr. President—

The PRESIDING OFFICER. Does the Senator from Nebraska yield to the Senator from North Dakota?

Mr. HITCHCOCK. I do.

Mr. McCUMBER. Is the Senator tired, so that he does not feel like answering a question or two?

Mr. HITCHCOCK. Oh, no; not at all.

Mr. McCUMBER. If not, I wish to propound one or two questions.

I should like to know any good reason for compelling a bank, or even the public, to invest in one of these regional banks, where the assurance of profit is never greater than 5 or 6 per cent, and to take all the risk, while the Government, which does not put one penny into the institution, is to get everything there is in the way of profit above 5 or 6 per cent. In addition to giving to those who are intrusted with the direction of one of these banks the inducement to make it a good, paying institution, why should not those who are compelled to invest in it under one bill, or invited to invest in it under the other bill, if they take all of the risk, at least have some of the benefits of getting a profit greater than 5 or 6 per cent?

I appreciate that in the bill the Senator has presented a provision is inserted whereby a certain portion of these notes will be set aside for the guaranty of the deposits in the particular bank investing, and I think certainly that is a very good provision. If that is done for safety, however, what reason can the Senator give for not allowing the bank at least to have the benefit, above that which is reserved for its own protection, of any profits in excess of 5 per cent, if the bank should earn more than 5 per cent?

Mr. HITCHCOCK. That is a rather long and somewhat complicated question. I can assure the Senator that it is far from my purpose to compel anybody to buy this stock. In fact, one of my chief objections to the bill as it came from the House was that it practically seized 20 per cent of the capital of every national bank in the United States, requiring one-half of it to be paid in cash, and compelling that bank to give up its charter and lose a large share of its bonds unless it did so. For that reason we have removed the compulsory feature. We do require the national banks to underwrite this stock and require and permit them to take such as the public fails to take, but we are confident the public will take it all.

Mr. McCUMBER. But if the public does not take it the bank is compelled to take it; is it not?

Mr. HITCHCOCK. Yes; it is required to take it, but it is not required to impound it. It is permitted to sell it, which is not possible under either the House bill or the bill presented by Senator OWEN. That is a defect which I think is very obvious, for a bank having this stock among its assets might, by reason of the demands of business, desire to sell it and realize on it; but under the House bill and under Senator OWEN's bill it is impounded and is not a liquid asset of the bank.

As far as the voluntary subscribers to the stock are concerned, they are merely the small investors, who are glad to have a 5 per cent dividend. I think if a higher rate of dividend were permitted the stock would go to a premium, and no good could be attained by that. It would become a speculative proposition. I am satisfied the stock will be oversubscribed if issued

on a 5 per cent cumulative basis. We have provided for public ownership of the stock and Government control of the banks, and in that way have freed the thousands of banks in the South and West who do not want to be compelled to invest their capital in this way.

I may say, furthermore, that there is another matter which I omitted to mention. One of the great defects of our national banking system to-day is that it has an inadequate capital. Every bank is trying to do as large an amount of business as possible on a small amount of capital, so as to have as high dividends as possible. The result of that process over a period of years has been a constantly growing disparity between capital and deposits. To take 10 per cent of the capital, or 6 per cent of the surplus and capital, away from those banks and put it into the reserve banks is to increase the evil; whereas if we sell this stock to the public we bring into the banking world \$106,000,000 of new capital, which of itself will serve to strengthen the system and render the margin of safety for depositors greater than ever.

Mr. GRONNA. Mr. President, I should like to ask the Senator a question in connection with the question propounded by my colleague relative to section 7. As I understand, the provisions of section 7 in no way guarantee the deposits. They simply provide that when surplus and profits go above a certain rate the excess shall be set aside for the purpose of paying depositors, but in no way does the bill guarantee deposits. Am I correct?

Mr. HITCHCOCK. That is correct.

Mr. McCUMBER. Mr. President, I do not think the Senator from Nebraska fully answered the question I asked. I assume that the one I asked him was rather long, but the particular feature of the question was this: What justification is there for the Government, which puts in no capital, which invests nothing, sharing in the profits, as against the public, which does put its money into the enterprise and takes all of the chances, having the benefits of such profits as may arise?

Mr. HITCHCOCK. I did overlook that branch of the Senator's question. The justification of it is that Government deposits, running from \$150,000,000 to possibly \$250,000,000, will be placed in these banks and given to the business world for use, just as the reserves of the banks are used.

Mr. McCUMBER. Without any interest being paid?

Mr. HITCHCOCK. Without any interest being paid.

Mr. SHAFROTH. Mr. President, in proposing a banking and currency measure such as is presented to the Senate the natural inquiry arises. What is the necessity for this legislation?

While our banking system has many admirable features, there are yet certain defects which call for speedy and positive action. We have at the present time 7,500 national banks and about 18,000 State banks and trust companies. In the ordinary transactions of banking business they are independent, competing with each other in making loans and in fixing the rates of interest. This independent competitive banking system is one result of the liberal provisions of the law under which a bank can be organized and incorporated by five or more persons, without any restrictions or qualifications whatever upon the incorporators. These 25,000 banks constitute the people's banks and afford splendid competition in supplying accommodations for merchants, farmers, manufacturers, and others engaged in commerce.

Any number of persons dissatisfied with banking conditions in any community have a perfect right to organize a competing bank either under the national-bank act or under the State laws. Thus they form the people's banks, both State and National, of this country.

While independent banks such as now exist are ample to meet the demands of commerce in ordinary times, yet there come periods in the history of every nation when panics occur and depositors, without reason, withdraw their moneys from these institutions. The inability of banks at such times to meet strains upon their cash reserves arises from the fact that each is then standing on its own bottom; that is, there is no place to which the bank in trouble can go to demand and secure cash for its commercial paper. The law's requirements as to reserves are totally inadequate and cause what is termed the pyramiding of reserves.

RESERVES OF NATIONAL BANKS.

Under the national-bank act the country bank must keep 15 per cent of its deposits as reserves, of which 6 per cent must be in its own vaults and 9 per cent in a bank or banks of the 47 reserve cities of the Union. Each of the 315 national banks in the 47 reserve cities is required by law to keep a reserve of 25 per cent of its deposits, one-half of which is to be in cash in its own vaults and one-half to be kept in the vaults of a bank or banks among the 52 national banks of the three central reserve

cities of New York, Chicago, and St. Louis. Each of the national banks of the central reserve cities is required to keep in cash in its own vaults 25 per cent of its deposits. The reserves deposited in the reserve city banks and central reserve city banks are treated under the law as simply deposits and not as reserves. It can be readily seen that the 9 per cent of the deposits of the country bank deposited in a reserve city bank has behind it in the reserve city bank only a reserve in cash of 12½ per cent of the same, or, in other words, only one-eighth of the amount, and the credit portion of that same reserve when transferred to the central reserve city bank is only one-fourth of the one-eighth, namely, one thirty-second, of the same. Upon these reserves, of course, is built an enormous amount of credits.

Mr. John B. Forgan, president of the First National Bank of Chicago, Ill., in his testimony before the Senate Committee on Banking and Currency, stated that his bank built credits to the extent of 8 to 1 upon capital and surplus; that is, that it loaned out eight times as much money of its deposits as its capital and surplus. In many banks the credits created are 10 to 1 and 12 to 1.

These reserves in ordinary times are amply sufficient to maintain a good banking system, but in times of panic they become totally inadequate, a condition which is accelerated by the policy which has been pursued of discouraging the use of the reserves, except to a very small per cent, in meeting demands of depositors and in prohibiting the making of any new loans when the reserves are to any extent below the percentage required. This policy and prohibition when money becomes tight increases the stringency and helps to precipitate the panic. These banks being independent, knowing that each must stand on its own bottom, begin to withdraw their credits in order to meet the threatening storm, and that compels every other bank to do the same. Thus the banks, in order to prevent their own suspension, withdraw their loans and make credits so tight that people owing money sacrifice their collateral and property in order to pay their debts. This, of course, produces an enormous depreciation in the value of all property, especially of stocks and bonds hypothecated as collateral to secure the loans. This condition is due to a very serious defect in our national banking system and is remedied in my judgment by the provisions of the pending bill.

LOSSES FROM PANICS.

The panic of 1893 was one of the most disastrous that ever occurred in the history of the world. Thousands of banks that were perfectly solvent and able in time to meet all of their liabilities closed their doors, but they did not have and could not get the money with which to meet the checks of their depositors.

When money becomes tight and there is a strain upon the banks that knowledge is acquired immediately by the people, and unreasoning fear that they may lose the money they have on deposit seizes them. Consequently, any little rumor, though totally unfounded, may precipitate a run upon a bank.

A story of the panic of 1893 well illustrates the hair-trigger tension of the public mind at that time. In a little town out West a tinner was fixing the roof of a one-story building in which the First National Bank of that town was doing business. A gust of wind blew his hat from his head, and in endeavoring to recover it before it went off the roof he pursued it rapidly. The wag of the town happened to be standing on an opposite corner and, seeing the incident, said in a very loud voice: "There is a run on the First National Bank." There were many people on the street who heard his words, but when they looked at the bank the tinner had caught his hat and was standing still, and hence the humorous significance of the remark was not appreciated. The word was spread from one to the other, and in less than two hours' time there was a line of depositors extending for more than a block making demands for their money at the bank.

The losses to depositors from bank failures have been very light, not exceeding one-fortieth of 1 per cent per annum, and that shows the unreasonableness of people in making runs upon banks, but the losses otherwise from panics have been tremendous.

Mr. THOMAS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to his colleague?

Mr. SHAFROTH. I do.

Mr. THOMAS. I should like to inquire of the Senator if the amount of one-fortieth of 1 per cent is based upon the estimate of deposits or the capital?

Mr. SHAFROTH. I think on deposits. It represents a loss on the average to the depositors of one-fortieth of 1 per cent. When banks fail absolutely the loss is sometimes great, but taking the entire amount of deposits in the United States and esti-

imating the losses that have occurred for a series of years, the losses, not of the State banks but the National banks, have been only one-fortieth of 1 per cent.

Mr. SMOOT. The losses from State banks have been no higher.

Mr. SHAFROTH. The Senator from Utah says the losses from State-bank failures have been no higher, and I presume that is correct.

It is stated that there resulted from the panic of 1907 a destruction of values in stocks, bonds, securities, and other property that would measure greater than a loss resulting from the burning and destroying of every particle of property and crops upon a strip of land 100 miles wide extending from the Atlantic to the Pacific Ocean.

UNIVERSAL DEMAND FOR REFORM.

No solvent bank can meet the demands of all of its depositors if presented within a few days, because the very life of banking is the lending out by the bank at interest of most of its deposits. Any bank which keeps in cash in its own vaults all of its deposits would soon become insolvent by reason of having no profits with which to meet its running expenses, and it would be of very little, if any, benefit to the community in facilitating its commerce and accommodating its people.

It is for these reasons that there has been a universal demand that our banking system be reformed and these defects therein remedied.

The Secretary of the Treasury, Hon. Franklin MacVeagh, in his annual report, December 2, 1912, used this language:

One of the most important facts in connection with banking and currency legislation is its urgency. As long as our banking and currency system remains as it is the immeasurable disaster of a panic will remain a possibility. The system under which we are living not only will not prevent a panic, but after a certain point in the generation of panic conditions is reached will make it inevitable. So that as long as the financial system created by our Federal laws remains unchanged and unreformed the Government will be exclusively responsible for the commercial, industrial, and social disasters which flow from panics. This responsibility is a fixed one. It is unavoidable, and ought to be frankly recognized and acknowledged. The people are helpless. The character of this responsibility is better understood when it is realized that the effects of financial panics are not at all confined to the banks and the larger business world. A panic such as that of 1907, or a lesser panic, reaches, directly or indirectly, every town and hamlet of the country and every family and individual. It nationalizes itself long before it has gone far, and its interruption of the business movements, large and small, its fracture of the organization under which commercial and industrial life go on, and the resulting social suffering are prolonged into years. These facts intensify the significance of the delays and postponements of the Government.

DEFECTS IN OUR CURRENCY SYSTEM.

The defects in our present currency system are also very plain and clear. While at times we have sufficient money to meet the demands of commerce and of the banks, yet at other times, and particularly in times of panic, there is total inadequacy of the quantity of money legitimately demanded. That arises from the fact that our currency is all fixed in amount and has no quality of elasticity in it whatever. The circulating medium is practically the same amount each year, whether it is during a dull season or the active season when crops are being moved. During the seasons of each year there is a difference in the demand for money amounting to several hundred millions of dollars.

Our national-bank currency is especially defective, because it can not serve as reserve money of national banks, and in my judgment it should be supplanted by currency that could be used as reserve money. This defect is manifested in the redemptions of national-bank currency in lawful money, which are continually being made at the Treasury at Washington. There was expressed by the national banks during the year ending October 31, 1913, \$683,431,000 of national-bank notes to the Treasury and redemption thereof made in lawful money. The obligation of each national bank to redeem its own notes at its counter consequently caused the United States Treasurer to separate these national-bank notes into piles against each national bank and to send them to the national bank that issued them for repayment of the amount in lawful money to the Federal Treasury. The total amount of national-bank notes outstanding October 31, 1913, was \$758,825,471.

When we realize that the sum of \$2,000,000 in national-bank notes each day is expressed into the City of Washington for redemption and nearly \$2,000,000 of legal-tender money is shipped back to the banks each day you can readily see that there is being suffered an enormous loss in express charges and in interest upon the money during transmission, besides the hazard of loss from wrecks, fires, and train robberies.

For these reasons there should be substituted for our national-bank notes a currency which can be used as bank reserves, and there should be added an elastic currency which will expand or contract in compliance with the demands of commerce. As

remedies for these defects in our banking and currency system the bill before the Senate is presented.

EIGHT FEDERAL RESERVE BANKS.

The pending measure provides for the establishment of eight Federal reserve banks in eight districts, each to be located at a city convenient to the banks of its district.

Many witnesses before the Banking and Currency Committee have objected to the number of such banks, many preferring one central bank. The Democratic platform upon which the present administration was elected declared against a central bank. The following language was used:

We oppose the so-called Aldrich bill or the establishment of a central bank.

It is therefore useless to argue for a central bank during this administration.

The Democratic Party is opposed to a central bank, and well it should be, because of the fact that it would concentrate in one place such a combination of wealth as could be used to the disadvantage of the entire people of the United States.

We find that, as the result of combinations, great injury has been done to gigantic enterprises in the United States, which have been thereby permanently halted in their growth. The Pujo committee, as the chairman of this committee has said, investigated the matter, and found that there was a combination among the great banks of New York City interested in railway and industrial corporations that prevented competing corporations from undertaking most excellent enterprises in the United States.

Mr. OWEN. I wish to ask the Senator from Colorado if he did not have in his own State, in the Moffat road, a very striking example of that.

Mr. SHAFROTH. I do know that, as far as the Moffat road was concerned, there was a continual effort in New York for five or six years to get a loan upon which the road could be financed, and that Mr. Moffat put some \$9,000,000 of his own money in the enterprise, and he was not able to accomplish the end desired.

Mr. THOMAS. I would like to state, if my colleague will permit me, that the promoters of the Moffat road, so called, not only made efforts in the city of New York to finance that enterprise, but also made them in the older countries of the world, and in several instances were successful up to the point of the formal execution of a contract, when some mysterious and invisible influence always intercepted the arrangement about the time it was to be consummated. The Union Pacific Co. on the north and the Rio Grande and Gould interests on the south, through their banking connections all over the world, were the upper and nether millstones that ground the promoters of that enterprise to powder between them, in consequence of which the original promoter of the road, whose name it bears, beginning with an amount of wealth that would easily make him the wealthiest man in the State of Colorado, ended in virtual bankruptcy.

Mr. SHAFROTH. That statement of what occurred was current in Colorado. Of course I know nothing about the exact facts, but the general impression there is as my colleague has stated.

Mr. NORRIS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Nebraska?

Mr. SHAFROTH. I yield.

Mr. NORRIS. I would like to inquire of the Senator if there is anything in either one of the bills now before the Senate that would meet that kind of a situation?

Mr. SHAFROTH. I think so. I will discuss that as I proceed.

SINISTER EFFECT OF COMBINATION.

Now, what are the difficulties under those circumstances? As my colleague has suggested, on account of this great combination of banks, with their interlocking directors controlling great industrial and commercial corporations, they can easily turn down an application that is made for funds to inaugurate a new enterprise that would come in competition with theirs; and the difficulty is not only that it is turned down, but whenever one appears who is willing to finance an enterprise of that kind he uses the argument that it has been turned down by the big bankers as a reason for extorting an enormous commission for his services in financing the same. Upon an application for, say \$30,000,000, necessary to construct the enterprise the answer of the financiers is, in substance: "We will make you a loan of the \$30,000,000 to be used in the construction of the enterprise, take bonds secured by mortgage upon the same, but we will ask you to issue \$60,000,000 of stock, and we will divide the stock between you and us." The result is that most of these companies having the feature of a utility corporation, such as a railroad,

extract from the people dividends to be paid on the full \$60,000,000 of capital, when the total construction cost very little more than \$30,000,000, on which the people also pay the interest.

That is the great injury to the people that the concentration of wealth in one place produces. The people of New York are no worse than the people anywhere else would be where such an enormous amount of money might be concentrated.

Mr. SMOOT. Does the Senator believe that if we had one great central bank, whose stock was subscribed by the people of the United States, whose affairs were governed by a board appointed by the President of the United States, such a thing could happen through the organization of such a bank as he has just been describing?

Mr. SHAFROTH. Of course, safeguards may be thrown around it, but where you have concentrated in one place enormous amounts of money you must accept the fact that influences will naturally be sought for the use of that money, and this in all likelihood will to some extent be accomplished.

Mr. SMOOT. Mr. President, I understand the whole theory of this proposed law is to provide means to relieve the business interests of this country in times of distress—

Mr. SHAFROTH. Yes, sir.

Mr. SMOOT. And to prevent panics; but in order to do that there has got to be a mobilization of the resources of this Government.

Mr. SHAFROTH. Yes, sir.

Mr. SMOOT. It does seem to me, Mr. President, the proper way to do that would be to have one great, strong central institution, the same as all foreign countries have to-day.

Mr. SHAFROTH. We have tried that twice, and each time the people of the United States have condemned it.

Mr. SMOOT. No, Mr. President; we did not try that kind of a bank. I am fully aware of the kind of Government banks that we have had in the past and the way that they were controlled and managed; but they were not organized the way that I would have a great central institution organized, managed, or controlled by the Government of the United States to-day.

Mr. SHAFROTH. But aside from that, a number of Federal reserve banks will be vastly more convenient than one such bank.

One of the objects of this bill is to require the banks of the different sections of the country to keep their reserves in a Federal reserve bank, located in an easily accessible city of the district.

ACCESSIBILITY A PRIME REQUISITE.

As one witness stated, the Federal reserve bank should be at a distance of not to exceed one night's run from each of the banks of that district, the purpose being such that at the closing hour of the bank its president could determine whether there would likely be a run upon its deposits next day. He could then gather the 30, 60, and 90 day commercial paper he wanted cashed, take the train for the city where the Federal reserve bank is situate, and be able to wire by the time of the opening of his bank that he had cashed sufficient securities to meet the demands of all depositors. That would be a great advantage over attempting to cash securities at one central bank located several days' run from many of the interior banks. Nor could branch banks answer that purpose as well. Branch banks are always subservient to the will and policy of the central bank, and there are always communications and hesitations as to transactions of the branch bank which produce delays. Such delays in times of emergency might be fatal to the member bank. The policy of a central bank might be against lending money in some section of the country, but the policy of a reserve bank will always be loyal to its district.

Accommodations are more certainly and speedily given on account of personal acquaintance. Such personal acquaintance would likely exist among the presidents of banks of a district and the directors of the Federal reserve bank of that district. There is not one chance in a hundred that a country banker would know a director of a central reserve bank, located in New York City or Washington, in one of which places in all likelihood it would be established. It seems to me country bankers everywhere would prefer that the concentration of their reserves should be near them instead of far from them.

Another reason why there should be eight or more Federal reserve banks instead of one central institution, as advocated by the Senator from Utah, is to prevent the money belonging to the 25,000 banks throughout the country being transferred to and concentrated in New York City, as it is at present.

The concentration of reserves in that city produces, as I have stated, a surplus of many hundreds of millions of dollars of deposits there, which can not be used in making ordinary loans, as such loans can not be realized upon immediately to meet drafts by country banks upon their deposits. Hence

these hundreds of millions are loaned to stock brokers for gambling upon the exchange. The money so loaned by the New York banks is secured by the stock purchased by the broker and is designated a "call loan," because it can be called by the bank any day, and if not paid the collateral may be sold immediately. The rate of interest is usually very low, 2 or 3 per cent per annum, but being influenced by gambling transactions it sometimes rises to 20 per cent and 100 per cent, and at the time of the attempted corner on Northern Pacific stock it rose on one day to 1,000 per cent per annum.

The gambling which results from the ability of brokers to get call loans at low rates of interest is most tempting and demoralizing to our people. The ticker works not only in New York City, but in every city of 50,000 population in the United States. Fortunes are made or swept away in a few days. If made, the sudden success unfits the winner for his ordinary business and leads to extravagance in living, which produces dissatisfaction if it can not be maintained. Loss of fortune, of course, leads to embezzlement, forgery, and suicide.

The New York bankers realize this and want to abandon that line of business, but they contend they can not, because call loans are the only liquid assets they have, and that, being the custodians of so much reserve money of other banks, which may be demanded at any moment, they must have call loans, which they can collect on short notice. They welcome the establishment of a reserve bank or banks which will discount their 30, 60, and 90 day paper on presentation and thus dispense with the necessity of making call loans. They generally prefer one central reserve bank, or as few a number as can be obtained, but they desire the opportunity of getting out of the call-loan business.

Mr. Vanderlip, president of the National City Bank of New York, the greatest institution of that kind in the world, stated before the Banking and Currency Committee that his bank would lose in deposits by the Owen-Glass bill \$50,000,000, but that, nevertheless, he would welcome its passage, with modifications, if thereby it could get out of the call-loan business; that on account of the Federal reserve bank cashing its commercial paper it would enable his bank, with fewer deposits, to lend money in commercial transactions, which pay a larger rate of interest, and thus permit a recoup, to a large extent, of losses of deposits.

PERSONAL CONTACT DESIRABLE FACTOR.

While no one can say that eight Federal reserve banks is the exact number which should be established, yet it is safe to say that such a number would cause the directors of each to come in personal contact with the officers of country banks and thereby serve their needs very satisfactorily. It would keep the reserve money that belongs to the banks of each district at home and thus be more responsive to the demands of the people of such district.

Of course New York City is and always will be the great financial center of this country, and banks all over the United States will keep some money with their correspondents there in order to meet their drafts, but New York should not complain if the country banks should keep part of their money in reserve banks near home. It unquestionably is to the best interest of the entire country.

As to whether we should have one or four reserve banks, while four would be much better, in my judgment, than one, eight would be far superior to four. The Senator from Nebraska [Mr. HITCHCOCK] has said the four would be likely to be located at New York, at Chicago, at St. Louis, and at San Francisco. That broad stretch of territory extending from St. Louis to San Francisco, covering 2,000 miles, would not be accorded such facilities that the banks in that region would be able to secure relief within the time when it might be needed.

Mr. REED. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Missouri?

Mr. SHAFROTH. I do.

Mr. REED. I do not rise for the purpose of engaging in any debate or of opposing what the Senator is saying, but I should like to ask him, in view of his last statement, under a system of eight regional banks where he expects any bank to be located west of St. Louis except at San Francisco?

Mr. SHAFROTH. In answer to the Senator I will say—

Mr. REED. And what reason he has to expect a bank to be located west of St. Louis, except at San Francisco?

Mr. SHAFROTH. In answer to the Senator, I will say that he has the right to guess where these banks will be located just as well as I. Under the bill of the Senator from Oklahoma the matter is left to a commission consisting of the Secretary of the Treasury and the two members of the Federal reserve board, and what they will determine nobody can foresee. Consequently, it is nothing but mere speculation as to what cities will

get the reserve banks. It is better that they should not be determined in this bill, because an incessant wrangle would arise among us as to whether one section or another should get one. It is left to an independent body, and they will establish them according to where they think the needs of commerce demand.

Mr. REED. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield further to the Senator from Missouri?

Mr. SHAFROTH. I do.

Mr. REED. I do not want for a moment to be misunderstood in my object. Nevertheless, I do not think that the Senator appreciated my thought, at least in asking the question. He states now that they would be located where the board saw fit to locate them, and that he can not, of course, look into the future; but the Senator does know the number of banks, where they are located, the amount of banking capital, the centers of commerce and trade, and the course of the streams of trade, and I wanted to ask him if he could tell us any city west of St. Louis, excluding San Francisco, that would by reason of these conditions be entitled to receive, or likely to receive, the location of a regional bank?

Mr. SHAFROTH. I do not know. I must say, however, that if there are to be only four reserve banks, I think that St. Louis would be too close to Chicago, and I would prefer that the fourth bank should be in Kansas City instead of St. Louis; but if there are to be eight banks I can not tell where they will be located; and on that account the Senator from Missouri is just as much entitled to guess at it as I am; and as I am not going to make a guess, he can.

Under this system, if we were to have only four Federal reserve banks, the great South would not have one and a bank in Florida would have to get its discounts in Washington or in New York City. That would also be true, of course, if there were only one Federal reserve bank. That being the case, the Florida banker would have to go a distance of 1,500 or 1,800 miles in order to get discounts, and the banker from Texas would obviously have to go to St. Louis, a distance from some parts of Texas of more than 1,500 miles.

Mr. WEEKS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Massachusetts?

Mr. SHAFROTH. I do.

Mr. WEEKS. I wish to ask the Senator if he does not recognize the fact that it would be possible to establish branches of the reserve banks and that very much of the business done at a distance will be done through the branches; so that his statement that it will be necessary to go 1,500 or 2,000 miles is not strictly correct?

BRANCH BANKS INADEQUATE.

Mr. SHAFROTH. Oh, I have said that you can have branch banks. It is true that you can obviate the inconvenience to some extent, but I have said the greatest asset in the way of procuring a loan is personal acquaintance with the directors of the reserve bank, and consequently when you go to one of the reserve banks and happen to know personally men on the directorate you are apt to get your discounts without question; but if you go to a branch bank, which is always subservient to the policy of the central bank, the president of that central bank might say to the agent in charge of the branch bank: "Oh, we need reserves here, and we need discounts over in this end of the country most; be careful about it; discount just as little as you can." And then there would follow the red tape that is necessary in communications between the agent and the principal. Such a system of branch banks does not answer the purpose as does a Federal reserve bank with a directorate that is independent, working upon its own footing in the interest of the very community where the stringency occurs. Under those circumstances a system of branch banks is not to be compared with a system establishing a number of Federal reserve banks.

It has been said that the European banks are central banks. Yes; but there are in Europe, which is no larger than the United States, fully 25 central banks instead of merely eight, and consequently in considering the illustration which is given of having a central bank for each nation you must take into account the territory and the area that would be supplied by central reserve banks. On that account it seems to me the fact that Germany has a central reserve bank, that Belgium has a central reserve bank, that Holland has a reserve bank, is simply illustrative of the fact that it is wise to have a number of reserve banks, because those banks are only within a few hours' ride of every part and portion of their territory, and every one of those banks is responsive to local conditions. When you have a bank that is independent, a Federal reserve bank, knowing and watching the interest of every portion of the district over which it

has jurisdiction, you can readily see that it will extend its power of discount and will aid the banks under circumstances when a central reserve bank, whose officers perhaps are not known or likely to be known by any of the presidents of the local banks, would refuse such assistance. No one would think of suggesting one central bank for all Europe, although its territory is no greater than that of the United States.

We have in this country 40 per cent of the banking capital of the world, and when you compare the balance of the European banks and divide it among their 25 or 30 banks you will readily see that we are not asking for enough banks in the United States in order to do the business of this country well and in order to furnish accommodations to the country banks whenever needed.

It seems to me, therefore, that the position taken by the Senator from Utah [Mr. SMOOT] and by the Senator from Nebraska [Mr. HITCHCOCK] that this great mobilization should take place in one bank or in a few banks is not well taken. The Senator from Nebraska states that if New Orleans needed money at a certain season of the year its limited bank, if it were to have a Federal reserve bank in any one of six or eight districts, would be subjected to such a demand that it would exhaust the amount of reserves which that bank had, and the result would be that it would have to apply to the Federal reserve board for currency; that is, new currency to be issued.

Our bill does not provide that it should necessarily be an application for currency, because the Federal reserve board, if it finds that there is a surplus of funds in one Federal reserve bank and a small quantity in another, has a right to order that that Federal reserve bank, where it has a surplus of funds, shall rediscount the paper of the Federal reserve bank of the weak district, and it is perfectly safe to do so. When the districts are smaller it must be remembered the demands for rediscounts will be less. The New Orleans Federal reserve bank, while possessing less capital and reserves than that of New York City, will be just as strong, because the demands upon it will be proportionately smaller.

CONTROL OF FEDERAL RESERVE BANKS.

The Senator from Nebraska [Mr. HITCHCOCK] has said that the second great difference between the two sections of the Committee on Banking and Currency is as to the control of these Federal reserve banks. That is true.

The Owen bill provides that the bankers shall have representation on each of the boards of directors of the several Federal reserve banks. Three of the nine directors shall be selected by and represent the stock-holding banks, three members shall be representative of the agricultural, commercial, and industrial interests, the latter three being subject to removal by the Federal reserve board, and the remaining three members are to be chosen by the Federal reserve board. Thus the banks elect six out of the nine directors of each Federal reserve bank. These Federal reserve banks are the ones that deal with the individual banks, pass upon the securities presented, direct what paper shall be discounted, and attend to all matters involving the care and investment of the enormous sums of money which will be held by them. It is upon the boards of directors of these Federal reserve banks that bankers should be placed, as is provided in the bill.

The amendment of the section of the committee represented by the Senator from Nebraska provides that there shall be five directors appointed by the Government of the Federal reserve bank and that four shall be elected by the member banks. That very amendment, if adopted, would destroy the entire character of this bill; it would make an entirely different kind of a bill, upon an entirely different theory. The theory of the bill as it came from the House and as it is preserved by our section of the committee is that there should be a bank of banks; that the banks should be required to take the stock in the Federal reserve bank. It can not be possible that banks would come into a system which creates a Federal reserve bank and provides that member banks shall deposit their reserves, aggregating \$400,000,000, and not have a majority of the board of directors. It is absurd to think that any bank on earth would come into a system of that kind. Does anyone imagine that if the present national banking law had prescribed that of its board of directors five should be appointed by the Government and four should be appointed by the bank, that there ever would have been organized a national bank? Certainly not; and yet there is more reason for the Government insisting upon that than there is for insisting that a majority of the board of directors of the Federal reserve bank should be Government appointees. Why? Because the national bank deals with other people's money. The national bank has the people's money to the extent of 10 to 1 of its own, and the Government might well determine that as so much money of the people of the United States is in their custody that a majority of the board of directors should be appointed by the Government to determine

where loans should be placed and how much money should be loaned. No one who has any knowledge of banking or of human nature would ever think that bankers would go into and organize a national bank under those circumstances. So member banks say as to representation upon the board of directors of the Federal reserve bank, and they have a right to say, "It is our money; it is our capital; it is our reserve; and we should have a right to control the Federal reserve bank by a majority of the board of directors." But the amendment of the Senator from Nebraska puts this control into the hands of the Government by a majority of one, without giving the banks that own and control the assets upon which the reserve bank operates a majority representation.

Mr. SMOOT. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Utah?

Mr. SHAFROTH. I do.

Mr. SMOOT. The Senator will admit, however, that the object of the Hitchcock amendment is to make the regional banks Government banks; and if they are Government banks the Government ought to have a majority of the directors, whereas the amendment of the Senator from Oklahoma provides that they shall be banks of banks.

Mr. SHAFROTH. Yes, sir.

Mr. SMOOT. Not being Government banks, the Senator from Colorado argues that being banks for banks or a bank of banks, the banks ought to have a majority of the directors.

Mr. SHAFROTH. Certainly. That is my contention exactly; and it seems to me that it is proper.

Mr. POMERENE. I rose for the purpose of asking the Senator from Utah whether or not he favored a Government-controlled bank.

Mr. SMOOT. If it is a Government bank, I certainly believe the Government ought to control the bank, or control it through its directors.

Mr. POMERENE. Did not the Senator favor the Aldrich plan, which was for an entirely bank-controlled bank?

Mr. SMOOT. Mr. President, no man ever heard me say that I was in favor of the Aldrich bill in its entirety. I favor a central bank, but I would require that bank to be owned by the people. The Government should have absolute control of its management. It should be one great bank, with the power of the Government back of it to put in any part of the country money sufficient to help in case of stress or in case of panic.

Mr. POMERENE. If the Senator will pardon me, with all due respect, I do not think the Senator has yet answered my question. The question was, or at least was intended to be, directed to one particular feature of the Aldrich bill, namely, the bankers' control of the bank. I asked the Senator whether he favored that feature of it.

Mr. SMOOT. No, Mr. President; I will say frankly that I did not, and that is one of the amendments I would have offered to the bill.

Mr. SHAFROTH. Mr. President, it sounds awfully well to say that we should establish a great people's bank. It seems to appeal to some. When we consider the matter closely, however, we realize the fact that we have now 7,509 people's banks, and hence that there is no occasion for a people's bank in which to keep reserves of banks. The name Federal reserve bank implies that it is a bank for reserves of banks and not for deposits of the money of the people.

Mr. POMERENE. Mr. President, will the Senator allow me to make a suggestion?

Mr. SHAFROTH. Yes, sir.

Mr. POMERENE. The Senator is now referring simply to the number of national banks?

Mr. SHAFROTH. Yes, sir.

Mr. POMERENE. There are more than 25,000 of these banks throughout the country.

Mr. SHAFROTH. That includes the State banks. I was speaking of the national-bank system. Every one of the national banks is a people's bank; and why? Because any five persons in the United States can incorporate a bank. If the inhabitants of a city, town, or hamlet think there is a combination to raise the rate of interest and oppress the people, any five men can organize a bank, and it therefore constitutes a people's bank.

What would be the result of having a great people's bank? If this stock is issued and taken by the people, do you suppose they will not say, "We want our paper discounted"? Should they not and would they not have a right to say, "I am a stockholder of this bank. Why can not I have a right of discount in it?" You have not the safeguards against an individual's discount that you have against a bank's discount, and it is the bank's money you are dealing with.

Mr. WILLIAMS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Mississippi?

Mr. SHAFROTH. I do.

Mr. WILLIAMS. I dislike to interrupt the Senator from Colorado; but if he will permit me, I should like to suggest that the shareholders of no bank that ever existed in the world were the people.

Mr. SHAFROTH. Yes, sir.

Mr. WILLIAMS. They were some of the people.

Mr. SHAFROTH. And generally some of the rich people, because, as a usual rule, the others are not the ones that invest in the stock of any corporation.

Mr. SMOOT. Under the amendment proposed by the Senator from Nebraska [Mr. HITCHCOCK] the stockholders of the Government bank provided for in the amendment would not be the rich people. Provision is made that no person shall own more than \$10,000 of the stock.

Mr. SHAFROTH. Yes; but we think \$10,000 is a pretty big sum of money out our way.

Mr. SMOOT. And provision is made that if the stock is oversubscribed, it shall be given to those subscribing for the lowest amounts.

Mr. SHAFROTH. I want to remind the Senator that not more than 5 per cent of the people of the United States are worth \$10,000. That being the case, it seems to me the theory that this is a people's bank must of necessity cause at least an agitation to this effect: "If we are stockholders of this concern, we should have the right of discount at the concern."

Mr. SMOOT. I hope the Senator did not think I intimated or thought that no one could take stock unless it was \$10,000 in amount.

Mr. SHAFROTH. No; I recognize that; but, as a usual rule, it is men of means who invest in the capital stock of a corporation, or even of a Government bank.

Mr. SMOOT. Well, Mr. President, I do not want to interrupt the Senator further.

REASON FOR BANK PARTICIPATION.

Mr. SHAFROTH. Mr. President, I want to call attention now to the fact that even under the Hitchcock amendment this Federal reserve bank will not have any funds from individuals. Nothing is permitted to be deposited there except reserves of member banks and money in the Treasury of the United States which the Secretary of the Treasury may deem it proper to deposit there. So the Hitchcock amendment imposes the condition that a private stockholder in a Federal reserve bank is not even to be permitted to deposit with the bank any sum of money whatever. Upon the other hand, what do we find with relation to the interest of the member banks? We find that they are required to put into the Federal reserve banks \$400,000,000 from their reserves, and that they are required to subscribe for \$100,000,000 of the capital stock of the Federal reserve banks. To further require that the Government shall appoint five directors to their four would mean that there would not be a single National or State bank come into the system, and that would produce a failure of the entire scheme.

Is it possible that we are going to defeat this bill simply by making an impossible condition? Is it possible that anybody would want to force such an amendment, when in all likelihood the banks would not come into the system?

It simply means, Mr. President, that if we adopt the amendments proposed by the Senator from Nebraska [Mr. HITCHCOCK] we will have no system at all, and there will be no effective legislation whatever in relation to either eight reserve banks or four reserve banks.

Mr. BRISTOW. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Kansas?

Mr. SHAFROTH. I do.

Mr. BRISTOW. I should like to inquire of the Senator if he has heard any banker say that his bank would not go into the system if the stock would be owned by the people instead of by the banks?

Mr. SHAFROTH. Mr. President, I have heard banker after banker, as representing conventions of bankers, say that they are most bitterly opposed to the bill because they have no representation on the Federal reserve board and that the bankers wanted a bill that gave them representation in the Federal reserve banks. I have heard them object on that ground. They appeared before our committee, and in the first few days of the hearings they asserted and claimed that by reason of the fact that their moneys were to be placed in these banks and the capital was to be composed of their moneys they should not only have representation upon the board of directors of the Federal reserve banks, but they should also have representation upon the Federal reserve board which meets in Washington. When we examined the

matter we found that they were wrong. We found that they should not have any representation on the Federal reserve board; that it would place them in an incompatible position. It was a matter which was discussed before the committee during the hearings. I wish to call attention to the reasons why they should have no representation upon the Federal reserve board.

Mr. BRISTOW. Mr. President, may I ask the Senator, if I am not interrupting him, another question?

Mr. SHAFROTH. Yes, sir.

Mr. BRISTOW. Will the Senator please state what bankers have said to him that they will not come into the system if the public is permitted to own the stock?

Mr. SHAFROTH. Oh, I think every man who said he would not come into the system unless he had representation upon the Federal reserve board would say with ten times the vehemence that he would not consider the proposition of coming in where the banks were denied a majority directorship in the Federal reserve bank.

Mr. BRISTOW. But the Senator can not give me the name of a single man who has made such a statement or point to a single letter to that effect?

Mr. SHAFROTH. No; I have not read all the letters I have received; but it is my judgment that they would not do so, because men will not turn over funds that belong to them to the control of people who have no interest in those funds.

THE FEDERAL RESERVE BOARD.

The Federal reserve board is the governmental part of this system, and no person directly or indirectly interested in banks should be a member of that board, because the duties of such a man would be incompatible with his private interests.

The Bank of England, the Bank of France, and the Imperial Bank of Germany do not permit a man who is connected with a bank which receives deposits and pays checks to become a member of their boards of directors.

The reason bankers engaged in the active business should not be upon the Federal reserve board is because of the conflict of interest which they would have as bankers and as members of the Federal reserve board. This board is vested with the power to raise or lower the rate of discount. Every time the rate of interest is increased or decreased it means the contracting or accelerating of credits, which means the fall or rise in the price of securities, which means that there will follow a bear or bull movement on the exchanges. As banks deal in bonds, stocks, and other securities, it is presumed that the knowledge upon the part of a banker on the Federal reserve board that the rate of discount will be raised or lowered would be taken advantage of by the interests which he represents, and thereby stocks and bonds would be either bought or sold by them with almost absolute certainty of a profit being realized.

The check-paying banks of the European countries would object most strenuously to a banker having such advantage over them, and so they are thoroughly satisfied that no banker is permitted to become a director of any of the European central banks.

The bankers, in their Chicago convention in August last, passed resolutions claiming they should have representation on the Federal reserve board. In the discussion they made the argument that as it was their reserves and capital that created the concern they should have such representation. In the hearings before the committee Mr. Festus J. Wade, of St. Louis, a good banker and most excellent gentleman, contended for the same right, and had the other impression as to the practice of the Bank of England. I happened to have the authorities near at hand and read into the record the following from Mr. Walter Bagehot in his book on Lombard Street:

In London no banker has a chance of being bank (of England) director, or would ever think of attempting to be one. I am here speaking of bankers in an English sense (of those who accept deposits subject to check). * * * Not only no private banker is a director of the Bank of England, but no director of any joint-stock bank would be allowed to become such. The two situations would be taken to be incompatible. * * * The mass of the bank directors are merchants of experience, employing a considerable capital in trade in which they have been brought up and with which they are well acquainted. * * * The direction of the Bank of England has for many generations been composed of such men. (Senate Banking and Currency Hearings, p. 130.)

I also called attention to the fact that Mr. Hartley Withers, an English writer, in his book on *The Meaning of Money*, explains the matter very satisfactorily, as follows:

When we come to consider the bank's organization, its most striking features are the constitution of its court of directors and its system of government by rotation, and these are points on which the bank's critics have fastened with the keenest energy and determination.

The bank court is a committee recruited chiefly from the ranks of the accepting houses and merchant firms, and its members are nominated by itself, subject to the purely formal confirmation of the shareholders; and it is an unwritten law that no banker in the ordinary sense of the word—that is, no one connected with what we call the check-paying banks—can be a member of it.

At first sight, this is one of those anomalous absurdities so common in England, and so puzzling to the intelligent foreigner, who can not understand why we suffer them. A court of directors ruling the Bank of England, and so performing most important banking functions, and yet disqualifying for membership any one with an expert knowledge of banking, is a tempting subject for an epigrammatically minded satirist. But, in fact, this anomaly, like many of our others, not only works excellently well in practice, but is, when calmly considered, clearly based on sound common sense. For in the first place it would obviously be undesirable that a member of one of the outer ring of banks should have the insight into the position of his rivals which membership of the Bank of England court could give him, unless all the others were similarly privileged. But if all the outer banks were represented on the bank court, it would become a committee of unwieldy dimensions, perhaps reproducing or reflecting in the bank parlor the rivalries and jealousies that stimulate the outer banks to work against one another, but are not conducive to their working together.

And the question of proportionate representation would be difficult to settle. As it is, the bank court, being free from connection with the outer banks except by keeping their balances, is able to watch their proceedings with a wholly impartial eye, and, on occasion, to make suggestions with salutary effect. (Senate Banking and Currency Hearings, p. 133.)

I also call attention to the fact that the governor of the Bank of England, in his answers to the questions of the Monetary Commission in 1908, used the following language:

CUSTOM EXCLUDES BANKERS FROM BOARD.

Q. Is there any custom restricting the class from which the directors may be selected?—A. There is no legal restriction as to the class from which directors may be selected, except that they must be "natural-born subjects of England or naturalized," but in actual practice the selection is confined to those who are or have been members of mercantile or financial houses, excluding bankers, brokers, bill discounters, or directors of other banks operating in the United Kingdom. (Senate Banking and Currency Hearings, p. 135.)

Mr. THOMAS. Mr. President—

The PRESIDING OFFICER (Mr. THORNTON in the chair). Does the Senator from Colorado yield to his colleague?

Mr. SHAFROTH. I do.

Mr. THOMAS. Mr. President, my colleague has given a great deal of time and study to this question, and to practically all its details. I should like to inquire at this juncture whether the directors of these banks in European countries are permitted to serve as directors upon the boards of industrial corporations and transportation companies. I ask the question largely, perhaps, for my own information; but it may become of some importance with reference to an amendment that may be offered by me to one of the sections of the bill.

Mr. SHAFROTH. I will say to the Senator that the qualification for a member of the court of directors of the Bank of England—it is called "court of directors"—is that he shall have £500 worth of stock in the Bank of England and that he shall be the owner of an establishment having at least £20,000 invested in mercantile business. I do not know whether there are any other qualifications or not. I have read one or two books on the subject of the Bank of England, one of which is by Mr. Hartley Withers, in which he treats of it exclusively. It is a fine volume, giving details of the operation of the bank; but I remember no requirement prescribed in that book excluding merchants who are directors of other corporations.

Mr. WILLIAMS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Mississippi?

Mr. SHAFROTH. Yes, sir.

Mr. WILLIAMS. If the Senator will pardon the suggestion, there is another reason why the great public banks in Europe do not permit the directorate to be composed of bankers, and that is because they intrust those banks, all of them, with the power of issuing currency.

Mr. SHAFROTH. Yes, sir.

Mr. WILLIAMS. In that connection it seems to me that one of the beauties of your plan here, so far as the banking part of the scheme is concerned, is that you give a majority to bankers who are shareholders in the venture, and then you give ultimately to the public board, the reserve board, the board of control, which is the official body, control of the currency and of the rate of interest.

Mr. SHAFROTH. Yes, sir.

Mr. WILLIAMS. So that it is a public body which makes the rate of discount or interest, controlling the fluctuations of gold to the extent that it will do it, and it is this public body that holds its hand upon the throttle so far as the issuance of currency is concerned, while the private business of the bank for the benefit of the stockholders who are banks is conducted by a directorate with a majority of bank-chosen people. Then you go further than that and make one of the directors in each regional bank, who is the chairman of the board of directors of the regional bank, the man who takes care of the portfolio of commercial assets, and determines whether or not they are good.

Mr. SHAFROTH. Yes, sir. I will state to the Senator that I intended to cover that very suggestion in another part of my speech.

So the bankers who came before the committee from Chicago and who adopted a resolution at their convention insisting that they should have representation upon the Federal reserve board have ceased their agitation, because they have found from the practice of the European banks that not one banker is upon the board of directors of any of those banks.

Of course, men who have been bankers, possessed of all the knowledge of banking in this country, are eligible, and some should be selected upon the Federal reserve board, provided they have severed all connection, directly and indirectly, with banks and trust companies. I have no doubt the President in naming the members of the board will consider the qualifications of such applicants and appoint at least some of them on the boards of directors of the Federal reserve banks.

STRENGTH OF THE FEDERAL RESERVE BANK.

The third point touched upon by the Senator from Nebraska [Mr. HITCHCOCK] was in relation to the reserves. He said there was a difference between the two bills as to the amount of the reserves. That is true. Their section of the committee has reduced the reserves of city and central reserve city banks to 15 per cent, whereas in our bill it is 18 per cent in reserve city banks.

The Senator from Nebraska says there will be considerable difficulty in conforming to the new system, and that there is considerable difference between the two bills in that respect. If he examines the bills, however, he will find that each of them carefully preserves the right of depositing in the Federal reserve banks only limited amounts for a long period. Our bill gives a period of 36 months in which to make this transmission of currency to the Federal reserve banks, while their bill gives only 24 months.

The amount of money which these Federal reserve banks will have will be sufficient, without the issuance of any new money, to serve the ends of commerce at almost all times, except when there is a great panic sweeping the country. These banks will have in their control \$400,000,000 of the reserves of the national banks, the capital of the Federal reserve banks, amounting to \$106,000,000, and the cash balance of the Federal Government, amounting on November 24, 1913, to \$289,799,160.81. Thus nearly \$800,000,000 will be in the control of the Federal reserve banks to lend to the member banks when the demands of the country in crop-moving time require it.

If all of the State banks and trust companies come into the system, there will be much more at the disposal of the Federal reserve banks to meet the same conditions throughout the country.

The provisions with respect to the lending of this money to the member banks are very conservative, and it is difficult to conceive how any loss can occur to the Federal reserve banks. The measure provides that any bank desiring to procure a loan from the Federal reserve bank must present 30, 60, or 90 day paper, usually in the form of drafts which represent a transaction in commerce. Such drafts, according to the experience of the world, constitute the best security, whether a bill of lading is attached or not. Notes representing a loan by a national bank to an individual to go into permanent improvements, though made payable in 90 days, are seldom intended to be paid at that time, and hence such notes are not considered liquid—that is, certain of payment at the time of maturity—and therefore can not, under the provisions of the bill, be taken by the Federal reserve bank.

The paper prescribed by the bill which is eligible for rediscount by the Federal reserve bank usually represents a shipment of wheat, cotton, or merchandise by a dealer; it is a draft drawn by the seller upon the purchaser, who may be a manufacturer, or larger dealer. This is accepted by the purchaser in writing upon the draft, under arrangement with his bank, that on presentation by the seller it will be paid immediately. The bill of lading can be attached and perhaps in many instances will be attached. It is presumed that when the draft falls due the purchaser will have converted his purchase into cash by resale or by manufacture and thus have the money to pay the same.

It is stated that inasmuch as these drafts may be in the hands of persons whom the acceptor does not even know there is never an effort to extend the same, but the purchaser, with the receipts from resale, always is ready to pay at maturity.

When the member bank desires to get more money it guarantees the payment of this gilt-edge paper and presents the same to the Federal reserve bank for rediscount.

The Senator from Nebraska says, further, as the fourth great reason why his system is better than the one recommended by the section of the committee represented by the Senator from Oklahoma [Mr. OWEN], that there should be a compulsory discount system, and that his bill contains it. In other words, there is a clause in the amendment offered by the Senator from

Nebraska to the effect that when commercial paper is presented it shall be recognized as a matter of right to the full amount of its capital stock.

RIGHT OF APPEAL TO FEDERAL RESERVE BOARD.

The provision of the bill reported by Senator OWEN is to the effect that all of this is subject to the control of the Federal reserve board, and that if any discriminations are made the banks have a right to appeal and have a review of everything that is done there. It is impossible to foresee what conditions will arise in the operation of this bill. We do not know whether it will be a success at all. We do know that we passed the Aldrich-Vreeland bill four or five years ago, and expected that it would give relief; but not a single dollar of the currency authorized by that bill has been taken out of the Treasury. Something intervened to prevent its operation, just in the same way that this bill will become inoperative if you say that the bankers shall not have control of the directorates of the Federal reserve banks.

So we find, as to the compulsory-discount feature, that there may be many reasons why the banks should stop discounting in a certain district. There may be a condition that we can not foresee. Of course the object of the Senator from Nebraska is good. He is afraid there will be discrimination against some person or some bank, and therefore that equal justice will not be administered. But we must consider the fact that in the administration of this bill many unlooked-for conditions may arise. It may be that we will have too much currency, and that it should be restricted, no matter who asks for it. It may be that the reserves will be depleted, and that the bank prefers to keep a little larger reserve than 33½ per cent, and therefore should make no more discounts. Various conditions may arise. But it seems to me that to put upon the statute books an act which provides that the paper presented by any member bank shall be discounted might work a great hardship and militate against the successful operation of the system.

THE CHANCE OF LOSS ON NEW CURRENCY IS INFINITESIMAL.

The chances of a reputable dealer in merchandise failing within 90 days are very remote, not being more than 1 in 1,000. The chances of the purchaser who is a larger dealer or manufacturer failing within the same 90 days are not more than 1 in 1,000. The chances of both failing within that time therefore are not more than 1 in 1,000,000. If a bill of lading is attached to the draft, the chances of loss in course of shipment without insurance are not more than 1 in 1,000.

Thus the member bank is fortified with paper in which there is a chance of all three failing within the same 90 days of not exceeding 1 in 1,000,000,000. The member bank before it can get any money from the Federal reserve bank must guarantee that paper, and there is not 1 chance in 1,000 that the member bank will fail within the same 90 days, so that the paper, duly indorsed by the member bank, represents a security that will not fail more than 1 time out of 1,000,000,000,000. Thus the chance of loss by the Federal reserve bank being limited to this kind of paper and requiring all the indorsements makes it as safe a transaction as it is possible to conceive.

Federal reserve banks, therefore, will have no hesitancy in supplying the member banks with money when the demands are greater than in ordinary times. Of course, in ordinary times the member bank will prefer to keep the paper and gain all of the interest thereon instead of rediscounting it at the Federal reserve bank and letting the latter make the interest, and that very motive will tend to regulate the discounting and payment of drafts.

The remedy proposed in this measure as to our currency provides that in times of emergency, even if all of the reserves, capital, and deposits of the Federal reserve bank have been loaned to the member banks, they can still procure new currency with which to prevent runs upon the member banks. The same character of paper must be presented to the agent of the Federal reserve board by the Federal reserve bank, which, as I have shown before, is liable to a loss within 90 days of only 1 chance in 1,000,000,000,000.

The Federal reserve bank must then guarantee that paper to the Government, and then the agent of the Federal reserve board delivers new currency to the Federal reserve bank, which, in turn, delivers it to the member bank which presented the security.

There is not 1 chance in 1,000,000 that the Federal reserve bank, with the enormous reserves and capital above mentioned, all of which are subject to a first lien to the Federal reserve board, will fail within the same 90 days; so, taking the case of a particular draft, by the time it reaches the agent of the Federal reserve board, with the liability of the maker, the acceptor, the bill of lading attached, the member bank with its capital and double liability of its stockholders, and the Federal reserve bank with its capital and reserves and double liability

of its stockholders—the member banks—the chance of loss to the Government for issuing the currency would not be more than 1 in 1,000,000,000,000,000.

Such combination of coincident failures by all of the signers and indorsers of this paper within the same 90 days would be almost impossible, and thus the new currency, which must retire within 90 days, becomes absolutely safe.

Another objection made by the Senator from Nebraska is to the clauses of our bill which provide that the Federal reserve notes shall be redeemable at the reserve banks in gold or lawful money, and as to the quantity of the gold reserve provided in our bill.

REDEMPTION OF FEDERAL RESERVE NOTES.

The bill under consideration, as it came from the House, provided that the Federal reserve notes issued should be redeemable at the United States Treasury in gold or lawful money or at the Federal reserve banks in gold or lawful money. The Aldrich bill, which was approved by the bankers generally, provided for the redemption of the circulating notes of its central bank in gold or lawful money. The pending bill, as it passed the House, provided that there should be a gold or lawful-money reserve to the extent of 33½ per cent against the Federal reserve notes, and that the Federal reserve banks should maintain as a redemption fund at the United States Treasury 5 per cent of such notes in gold or lawful money, and the balance they should keep in their own vaults. The present national-bank notes are redeemable only in lawful money.

The bill as amended by Senator OWEN strikes out the words "lawful money" when the notes are presented for redemption at the Treasury, strikes out the 5 per cent clause as to the amount of gold or lawful money the bank shall keep in the redemption fund at the Treasury, and provides that they shall keep such an amount of gold in the redemption fund at the Treasury as the Federal reserve board may from time to time direct, and leaves the redemptions at Federal reserve banks as passed by the House, namely, in gold or lawful money. The Hitchcock bill provides for the redemption of the Federal reserve notes both at the Treasury and at the Federal reserve bank in gold alone.

The object of striking out the 5 per cent clause was because a similar provision is contained in the statutes of the United States with respect to the redemption of the national-bank notes in lawful money, and it has been found to be not quite adequate to meet the redemptions that are presented.

While I do not believe that the Federal reserve notes will be presented at the Treasury in any such number as the national-bank notes have been for redemption in lawful money, yet, in order to avoid the possibility that 5 per cent may not be adequate, it was deemed proper to let the Federal reserve board call for gold from the Federal reserve banks in any quantity that may be required.

Senator HITCHCOCK's amendment to the bill provides that no less than 35 per cent of gold shall be kept as a reserve and that the amount ordinarily to be kept shall be 45 per cent, with a permit to let the reserve be depleted to 35 per cent upon there being paid an interest charge of 1 per cent on each 2½ per cent exhaustion of the gold reserve. In other words, under normal conditions the reserve required under the Hitchcock amendment will be 45 per cent in gold, and the amount required according to the House bill and the Owen amendment will be 33½ per cent.

In most of the issue banks of Europe there is no minimum reserve required. The Bank of France, while it usually holds a very large reserve in gold, has no minimum fixed by law. The Reichsbank of Germany prescribes that a reserve of 33½ per cent shall be maintained in gold. The Bank of Belgium maintains a gold reserve of 19 per cent.

STRAIN ON GOLD.

The result of requiring the maintenance of a very large gold reserve will be to produce increased demands for gold; and as gold is the international money of the world, any increase by one nation necessarily makes the struggle for gold which is now going on a little more severe.

The flow of gold to or from a country is regulated by the banks of issue of the various countries raising or lowering the rate of discount. In order to attract gold the bank of issue of a European country will raise the rate of discount; that is, raise the rate of interest which the banks charge. That tempts money from other countries to make investments at the higher rate of interest, and therefore brings the money with which to pay for such securities; and as international balances must be paid in gold, the transaction therefore brings gold to the country that raises the rate of discount.

The other nations that have lost gold by that process must, in order to get it back, raise their rate of discount a little

higher. Thus this seesaw in raising the interest rates with the object of attracting gold continues until interest rates become very high. This competition and raising the rate of discount among the various nations of the world to get more gold is counteracted only when enterprises that are contemplated are confronted with a rate of interest too high to make such enterprises profitable, and thus a less demand sets in for money, which, according to the principle of supply and demand, effects the lowering of the rate of interest.

HIGH DISCOUNT RATE PRODUCES STAGNATION.

When the rate of discount gets high throughout the world it generally produces stagnation in business, commerce, and enterprise. Consequently, the least strain upon gold that can safely be made and yet maintain the gold standard comes nearest permitting business and enterprises to continue in a prosperous way.

It is said that at the present time there is less gold in circulation in proportion to the credits outstanding than ever existed at any other period in the history of the world. That means that there is more of a strain upon gold for reserve and redemption purposes in proportion to the business conducted than at any other time in the world's history. In the general policy, therefore, of relieving the strain on gold there is a tendency to let commerce thrive, while requiring large reserves increases the strain on gold and thereby makes a depressing effect on business and commerce.

At the end of the first six months of the present year the aggregate gold reserves of all the principal banks and treasuries of the world amounted to \$4,693,104,000.

At the end of the first six months of the year 1911 the gold holdings of the various institutions were \$468,867,000 less than in 1913. Notwithstanding this increase within the last two years in the gold holdings of the treasuries and banks of the gold-standard nations, the great banks of issue assert that they have not gold enough and vie with each other in raising their discount rates, so that they may jealously protect their holdings.

This struggle for gold among the nations of the earth in the last 15 years has produced great increases in the rates of interest.

At the close of the nineteenth century the discount rate of the Bank of England remained normally in the vicinity of 2 to 2½ per cent per annum, but has since been gradually climbing to 4 per cent, which it reached in 1912; and recently the rate has gone still higher to 4½ per cent, and later still to 5 per cent per annum.

According to Mr. Paul Leroy-Beaulieu, an eminent French economist, the following advances in the rates of discount charged by the banks of issue of various countries have been made from June 30, 1911, to June 30, 1913:

	1911	1913
	Per ct.	Per ct.
Bank of France.....	3	4
Bank of England.....	3	4½
National Bank of Belgium.....	3½	5
National Bank of Switzerland.....	3½	5
Imperial Bank of Germany.....	4	6
Bank of Austro-Hungary.....	4	6
National Bank of Denmark.....	4½	5
National Bank of Norway.....	4½	5½
National Bank of Spain.....	4½	4½
Russian State Bank.....	4½	6
Bank of Issue of Italy.....	5	5½
Bank of Japan.....	4.74	6.54

In the Banking Law Journal, of New York, for September, 1913, there is stated the following important information:

Europe needs gold and buys it at a premium. Imports of gold to Europe are necessary to recoup the waste of capital from the Balkan wars and the devastation of the agricultural countries which furnish so much food to continental countries. Egyptian reserves have been depleted by demands for capital in the Far East and must have more gold. India, favored by great balances of trade, has within two years purchased over \$250,000,000 of gold, besides silver, and as much more within the next two years will have to go into the "sink hole" of precious metals.

The Washington Post of November 16, 1913, contained a very able editorial, in which the following language was used:

The facts are that for nearly two years now every country in Europe has been in financial straits, and if European banking systems have withstood financial strain, they have not been sufficient in any way to meet the demands of Europe, of Africa, of Asia, or of the Americas for funds to carry out profitable and legitimate business enterprises.

Great Britain to-day confesses its inability to finance India with gold. France places estoppel upon all foreign loans until its own governmental needs are financed.

Germany was only saved from bankruptcy 18 months ago through the gold furnished by American bankers.

Where are the funds necessary to carry on the increasing business of the world coming from when these highly lauded systems of European

finance fail to provide them for their own continent or the needs of others?

The ablest railway manager in the world has told the people of the United States repeatedly during the last two years that our railways require \$5,000,000,000 for proper development.

No one doubts the correctness of that statement.

Every business man in the United States wishes that development to proceed.

The most active and powerful of New York financial managers has told the Congress, the bankers, and the people of this country that the electrical development of the United States will during the next few years call for the expenditure of \$2,000,000,000.

The populace and the business interests of the country earnestly approve of this development at the earliest possible time.

In an editorial of the Washington Post of November 19, 1913, the following information is given:

It was not our tariff legislation which caused the Bank of England to hoist its bank rate of discount to extremely high figures for the past year to keep its gold at home.

It was not our antitrust talk that forced the German banks to issue millions of dollars' worth of notes of small denominations that they might gather in and retain gold to strengthen their reserves of primary money.

Sound as are our own financial conditions, the insufficiency of gold, the primary money, is to-day a veto upon the ability of the bankers to aid the business men; it is a ban upon enterprise in every form; it is a bar to general prosperity, a fearful handicap upon safe finance and legitimate business.

It can be readily seen from these extracts that the higher the gold reserves are fixed the greater the strain upon gold will become, and that the way to retain gold will be by increasing the rate of discount. This may be very satisfactory to the bankers, because they reap more profits when they lend out their money at a higher rate of interest, but it is not to the interest of the people who are compelled to pay the higher rate of interest fixed by banks of issue under the claim that they are trying to get more gold.

"LAWFUL MONEY" REDEMPTION RELIEVES STRAIN ON GOLD.

In this bill we have retained the House provision that the Federal reserve notes may be redeemed by the bank in either gold or lawful money. It takes the strain off gold at the eight reserve banks and does not impair the redemption feature of the note in gold, because it provides that the Federal reserve note may be redeemed at the Treasury in gold. In other words, it obviates the necessity of each of these reserve banks competing with each other and with the United States Treasury for gold and thereby permits a smaller quantity of gold to make the redemptions, which, of course, relieves the strain on gold to that extent.

Mr. THOMAS. I think it is pertinent to the discussion of the Senator to state here that the drain upon the world's supply of gold which India has been constantly making for some 10 years past has caused the Parliament to provide for the appointment of an Indian currency commission charged with the duty of ascertaining its definite causes, and whether the Government can safely persist in its effort to force a gold standard upon India. The attempt is about 12 years old now, and its principal result has been to educate the East Indian in the hoarding of gold instead of silver, since he is no longer able to take his hoarded silver to the mint and exchange it for rupees at the rupee legal value. Eighty-eight million pounds sterling in gold have been diverted from the channels of international trade into India during the last three years, equivalent, of course, to \$440,000,000 of our currency.

That gold is no longer available, nor is any part of it for monetary needs, and the total of withdrawals, I think, amounts to £175,000,000 during the last 10 years. It is no longer available for the uses of commerce, because gold which goes to India, like silver which formerly went to India, absolutely disappears and is hoarded by the natives in various ways. Some of it is hidden away as coins, but most of it is melted and is changed into articles of personal adornment. But the startling fact is that it disappears as completely as though it were sunk in the middle of the sea, and the drain is constantly increasing.

This presents to my mind one of the most serious menaces to international trade and to international currency conditions that at present exists. It is one reason, which I will endeavor to elaborate before this discussion ends, why I believe it is dangerous for any nation to pivot all its currency and credit conditions upon a single metal.

Mr. BRISTOW. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Kansas?

Mr. SHAFROTH. Yes, sir; I yield.

Mr. BRISTOW. Does not the Hitchcock amendment provide that the reserves shall be in gold or gold certificates, and have we not \$1,100,000,000 of gold certificates in addition to the free gold?

Mr. SHAFROTH. Oh, yes; and the very fact that the national-bank notes are sent down here to Washington by express,

\$600,000,000 each year, or at the rate of \$2,000,000 every day, running the risk of train wreck, fire, and robbery that might occur, shows that—

Mr. BRISTOW. I understand; but that has nothing whatever to do with it.

Mr. SHAFROTH. It shows that there are not enough of these gold certificates to act as reserves for the banks. That is what it means. It means that they are short of currency which will answer that purpose.

Mr. BRISTOW. Does not the Senator know that the reason why the national banks send the national-bank notes for redemption is because they can not be used as reserves?

Mr. SHAFROTH. Certainly; and when gold is reserve money, and gold certificates are reserve money, and greenbacks are reserve money, of course it shows that still there is a shortage in that, or else this redemption would not take place to the extent of over \$600,000,000 a year.

Mr. BRISTOW. I can not see the line of reasoning which the Senator presents, for it is not because of a shortage in gold that these certificates are sent, but it is because the law does not permit them to be used as reserves.

SHORTAGE OF RESERVE MONEY FORCES BANK-NOTE REDEMPTION.

Mr. SHAFROTH. But if there was a sufficient quantity of gold certificates and a sufficient quantity of those other moneys that are used for reserves, they would pay out this bank currency just as they would in ordinary transactions, and they would not ask redemption for it. It is because of the shortage in that money—that is, the reserve money—that the national-bank notes come to Washington for reserve money. When you cite to me that there is a quantity of gold represented by certificates, I say, yes; but where is it? I saw a statement the other day that there are \$114,000,000 of American gold certificates in Canada. I have been told that there are many millions of our gold certificates scattered all over Europe, acting as warehouse receipts, which shows they have confidence that gold will be at their demand whenever they want it. How much there is one can not tell. We can not tell how much of the \$346,000,000 of United States notes there are, because we know that the retirement of them was stopped in 1878, and there were \$346,000,000 then. There has been no way of determining how many of those notes have been burned or destroyed or taken out of the country.

Mr. BRISTOW. May I ask the Senator, is it not because the national-bank note is an inferior note that it is sent for redemption, the banks retaining that which is the best?

Mr. SHAFROTH. No; except that it can not be used as reserve money.

Mr. BRISTOW. Because it can not be used as a reserve, and it is not as useful as a gold certificate and a greenback.

Mr. SHAFROTH. Certainly; that is true. Of course they are kept at a par with gold, and nobody has ever attempted to force one to a discount.

Mr. BRISTOW. Certainly. It is kept at par because of the credit of the United States Government, the United States bonds, behind it, and the pledge of the Government to redeem it in gold.

Mr. SHAFROTH. The 33½ per cent which the Owen section of the committee has recommended to be held as a gold reserve for the redemption of these notes at the Treasury is amply sufficient to make it a perfect currency. Did you ever notice that whenever it came to providing for the issuance of bank bills the bankers never ask to make their notes redeemable in gold? Did you ever hear a banker suggest that national-bank notes should be made payable in gold at the bank counter? Oh, no.

We find that the Aldrich bill, which was presented and which met the approval of all the bankers of this country as represented in their conventions, expressly provided that the redemption should be made in gold or lawful money, at the option of the bank. Here in the compromise that has been made with relation to this matter by the Owen side of the committee we have provided that these notes shall be redeemable in gold at the Treasury, or in gold or lawful money at the Federal reserve bank. I want to state why. It is because it saves the strain upon the gold. That is the reason. If you have it redeemable in gold at every one of the Federal reserve banks, you simply establish eight competing points for gold, all bidding against the Government for the purpose of getting gold into their vaults.

Mr. THOMAS. Mr. President—

Mr. SHAFROTH. I will yield in a moment.

We find that these gold reserves proposed may be more than 33½ per cent. That is the minimum, and the chances are that when there is an easy market in gold it may accumulate and go much higher, just as it does in European banks. But to com-

pare the conditions in this country and the necessity for a gold reserve with the conditions in Europe is something that is ridiculous. All European nations are upon a war footing. Every one of them has to grab gold and keep it. We being upon a peace footing, having no enemies and having no fears of war, we have a right to presume that the strain upon our gold will not be great.

I now yield to my colleague.

Mr. THOMAS. Mr. President, I am heartily in favor of that provision of the House bill which makes this money redeemable in lawful money, but there is one feature of the Owen bill about which I should like some information. My understanding of it is that it provides that these notes shall be redeemed at the United States Treasury in gold, but if presented to the Federal reserve banks they shall be redeemed either in gold or lawful money. What I want to inquire is, if it will not cause the holder of the note who wants redemption in gold to go to the Treasury instead of going to the bank, which has the alternative of redeeming in the two classes of money, and whether it will not, as a consequence, create a demand upon the gold in the Federal Treasury.

WILL BE NO CONSPIRACY TO WITHDRAW GOLD.

Mr. SHAFROTH. I will answer that, Mr. President. We provide in our bill that the Federal reserve banks shall keep a fund in gold in the Treasury of the United States, and consequently there will be no conspiracy, upon their part at least, to draw gold out of the Treasury of the United States. This fund of 33½ per cent is to be kept in their own vaults and in the vaults of the Treasury of the United States. All the Federal reserve notes redeemed at the Treasury are from the gold fund furnished and maintained by the Federal reserve banks that procured the issuance of the Federal reserve notes.

The House bill as it came to us provided that the Federal reserve banks should create and maintain a gold redemption fund in the Treasury of 5 per cent of notes issued. By law at the present time the national banks maintain at the Treasury for the redemption of their notes a 5 per cent fund in lawful money. By reason of the redemption of these national-bank notes in such large numbers, as I have said, it has been found that 5 per cent is inadequate. I believe 5 per cent would be sufficient as to these notes, but for fear that it would not be sufficient we have provided that they should deposit with the United States Treasury for this redemption fund such an amount as the Federal reserve board should determine. That, of course, may be 5, 6, 10, or even 20 per cent if it is necessary. So the United States Treasury is amply protected by this proposition.

As to the good policy of requiring redemption of Federal reserve notes at the Federal reserve banks in gold or lawful money, there is no better illustration than our present system of supporting our currency upon a gold reserve of \$150,000,000. That quantity of gold has been found amply sufficient to maintain all redemptions of the United States notes amounting to \$346,000,000 and indirectly to maintain the redemptions of national-bank notes amounting to \$758,000,000. The fact that the national-bank notes are not redeemable at the national banks in gold, but are redeemable at the banks in lawful money, relieves the strain on gold, and yet every holder of a national-bank note can get his gold after obtaining for his national-bank note the United States note; and thus this \$150,000,000 of gold supports a superstructure of \$346,000,000 of United States notes redeemable in gold and the \$758,000,000 of national-bank notes redeemable in the United States notes.

Under this system there has never been a deviation of a fraction of a cent between the national-bank notes and gold since the establishment of the gold reserve on March 14, 1900. It is therefore of the highest importance that the provisions of the House bill as to redemption of Federal reserve notes at the Treasury be made in gold, but at the Federal reserve banks in gold or lawful money.

Mr. WILLIAMS. Mr. President—

The PRESIDING OFFICER. Does the Senator from Colorado yield to the Senator from Mississippi?

Mr. SHAFROTH. I do.

Mr. WILLIAMS. I wish to ask the Senator if he does not think if this 33½ per cent was required to be held in gold—and that would have to be the case if the banks were required to redeem in gold—the practical modus operandi would be that the banks would at once, in order to procure their 33½ per cent of gold reserve, proceed to tender greenbacks at the Treasury of the United States and get it out of a fund which we are now holding to protect the greenbacks?

Mr. SHAFROTH. Yes; they might do that, and thereby deplete the gold reserve of our Treasury.

It can be readily seen from this illustration that 33½ per cent in gold is amply sufficient to maintain at a parity with gold all the Federal reserve notes presented at the Treasury for redemption in gold or at the Federal reserve banks for redemption in gold or lawful money. The provision in Senator Hitchcock's amendment requiring 45 per cent in gold would simply make that much greater strain on gold than is necessary and requiring redemption in gold at Federal reserve banks would cause those banks to maintain a higher gold reserve than the law requires, just as banks now maintain higher reserves to meet checks on deposit than required by law.

The bankers with their limited strength are continually pleading for a law which requires smaller reserves for themselves. They have urged and obtained in this bill a reduction of reserves for country banks from 15 per cent to 12 per cent and for reserve city banks from 25 per cent to 18 per cent, and the Hitchcock amendment reduces the latter to 15 per cent.

ADVANTAGEOUS TO NATIONAL BANKS.

Many of the bankers who appeared before the Senate Committee on Banking and Currency felt that the bill was not sufficiently favorable to the national banks to justify their going into the system. An examination of the provisions of the bill will dispel any such contention to the mind of a disinterested person. It is distinctly to the advantage of every national bank to go into the system. The law now provides that each country national bank, of which there are 7,142 in existence, must keep in its own vaults and in banks of a reserve city 15 per cent of its deposits. The present bill reduces that percentage to 12 per cent, which gives a great advantage to the country bank.

At the present time a country bank with \$100,000 capital and surplus ordinarily has, say, \$1,000,000 of deposits. Under the present law it must keep as reserves in its own vaults and in other banks in reserve cities \$150,000. Under the proposed measure it would have to keep in its own vaults and in the vaults of the Federal reserve bank only \$120,000. That would be a distinct saving in cash of \$30,000. As it is conceded that with capital, credits can be built up to the extent of eight or ten times, the country bank could thereby build up credits upon this \$30,000 of cash to the amount of \$240,000, all of which could be loaned at 6 per cent, and thus the country bank would be benefited to the extent of \$14,400 per annum, while its cost of going into this system would be only 6 per cent of its capital and surplus, which would amount to only \$6,000, upon which it will draw a dividend of 6 per cent per annum, which is no loss. It would lose the 2 per cent per annum that it now receives from banks in reserve cities, where, according to the present law, is held 9 per cent of its deposits, which would be \$90,000, 2 per cent of that amount being \$1,800 per year. Thus the country bank would be better off by coming into the system by \$12,600 a year. Similar advantages exist in favor of the reserve city banks.

It is difficult to conceive that a bank which is given such privileges by this bill, together with the privilege in times of runs to seek shelter under the power of these great reserves, should hesitate one moment in subscribing to the capital stock of the Federal reserve bank.

The only banks that will lose deposits by this bill are those of New York City, where the reserves of nearly all of the banks in the United States are concentrated and used in gambling upon the stock exchanges. These reserves belong to the banks throughout the country and do not belong to the New York banks, and they can not justly complain when these reserves are kept at home instead of being concentrated there.

There is a great difference between the amendment proposed by the Senator from Nebraska and that proposed by the Senator from Oklahoma relative to the retirement of the national bank notes. The Senator from Nebraska proposes to retire the 2 per cent bonds to an extent not exceeding one-half of the capital stock of the reserve banks each year. Of course that would make a retirement of a very large amount each year. He proposes to issue in place of the bonds securing such circulation 3 per cent bonds; but he does not provide for any permanent money to take the place of the national-bank notes, and consequently the plan involves simply a contraction of the currency to that extent.

EFFECT OF RETIRING UNITED STATES NOTES.

Some of the Senators here remember the great agitation that occurred when it was discovered in the 70's that power had been given to the Secretary of the Treasury to retire United States notes, and that over \$100,000,000 of such notes had been retired. Congress in 1878, at the almost unanimous demand of the people, took away this power from the Secretary of the Treasury. You may talk about expansion, but when it comes to

contracting the currency you are going to produce disturbances that will shake to the very foundation this Government. Consequently, I think one of the great defects of the bill reported by the Senator from Nebraska lies in the provision which proposes a retirement of this currency without the substitution of a permanent circulating medium. His theory is that there will be such a demand for this currency based on 90-day paper that sufficient will be issued and remain as a substitute for the retired national-bank notes. Several of the witnesses before the Committee on Banking and Currency testified that they did not believe there would be enough of the commercial paper that is required to make a demand for money sufficient to take the place of the national-bank notes. So the Owen section of the committee made a change, and provided that there shall be issued in lieu of the national-bank notes, which shall be retired at the rate of \$3,000,000 a month, Federal reserve notes, based upon the same bonds now securing national-bank circulation, or based upon substitute bonds, with the backing of the Federal reserve banks instead of the backing of the individual banks, as now—a better security, a safer security, and one of a permanent nature. The substitute bonds bear 3 per cent interest, but the interest goes to the Federal reserve banks. A currency based upon 90-day paper is supposed to be issued only in emergencies to supply a temporary demand for more money to meet the necessities in crop-moving seasons and in times of panic.

Some people think that there will be great difficulty in the Federal reserve banks getting gold. They seem to think that it is necessary to sell bonds for the purpose of obtaining gold to redeem the currency. The gold-redemption fund is furnished by the member banks; it only has to be maintained by the Federal reserve banks. It takes an insignificant amount of money to procure gold for redemption purposes. All a Federal reserve bank would have to do would be to take its receipts of the day before and buy an equal amount of gold. It can get gold for one-tenth of 1 per cent, and out of their general fund or their profits they can add one-tenth of 1 per cent, and that pays for the gold. One thousand dollars used in that manner would get gold enough to redeem a million dollars of Federal reserve notes, because the gold is not consumed; it is exchanged.

If after they bought the gold it was consumed, of course it would take a million dollars of money or a million dollars of notes or a million dollars of bonds to buy the million dollars of gold bullion or gold coin. You can readily see that it only takes a thousand dollars added to the receipts of the day before, if the receipts were a million dollars, to buy a million dollars in gold and put it in the reserve in place of the paper money in the reserve which was used the day before in drawing gold from the reserve. So this necessity of issuing one-year paper or issuing bonds for the purchase of gold is not real. The Government buys gold bullion to an enormous extent every year at its mints, paying therefor \$20.67 per ounce. The idea of the necessity for bond issues to buy gold came to us from the Cleveland administration bond issues. But what became of the money from those bonds? It went to pay the general expenses of the Government and was consumed. Of course you have to issue bonds to the extent of \$100,000,000 to get \$100,000,000 in gold when you are going to use it for expenditure purposes; but when you are going to keep it simply for the purpose of redemption, I repeat, all you have to pay is the little premium which the European banks now pay—simply one-tenth of 1 per cent added to the paper money you already have with which to buy gold. That is all it costs to keep a reserve. The theory of providing bonds instead of the \$758,000,000 of national-bank notes to buy gold and to keep that gold is an absolute absurdity to any person who understands the system of buying gold in the market.

This measure will make panics unknown, unless it be a world panic, and even then it will mitigate and relieve the severity of the disturbance to a marked degree and will save from disaster every bank except the insolvent banks of the country.

With rigid inspections, as provided in this bill, there will be no such thing as the closing of the doors of a solvent bank, and thus a degree of prosperity will be established and maintained in our country that will bring peace, security, and happiness to our people.

EXECUTIVE SESSION.

Mr. BACON. If there is no Senator who desires to speak on this subject, I move that the Senate proceed to the consideration of executive business.

The motion was agreed to, and the Senate proceeded to the consideration of executive business. After 1 hour and 30 minutes spent in executive session the doors were reopened, and (at 5 o'clock and 50 minutes p. m.) the Senate adjourned until to-morrow, Wednesday, November 26, 1913, at 2 o'clock p. m.

NOMINATIONS.

Executive nominations received by the Senate November 25, 1913.

SECRETARIES OF EMBASSIES.

Arthur Hugh Frazier, of Pennsylvania, now second secretary of the embassy at Vienna, to be second secretary of the embassy of the United States of America at Paris, France, vice Sheldon Whitehouse, nominated to be secretary of the legation at Managua.

Thomas Hinckley, of the District of Columbia, now secretary of the legation and consul general at San Salvador, to be second secretary of the embassy of the United States of America at Vienna, Austria, vice Arthur Hugh Frazier, nominated to be second secretary of the embassy at Paris.

Arthur Mason Jones, of New York, now secretary of the legation at Managua, to be second secretary of the embassy of the United States of America at St. Petersburg, Russia, vice Frederick A. Sterling, nominated to be second secretary of the legation at Peking.

SECRETARY OF LEGATION AND CONSUL GENERAL.

Henry F. Tennant, of New York, now secretary of the legation at Caracas, to be secretary of the legation and consul general of the United States of America at San Salvador, Salvador, vice Thoms Hinckley, nominated to be second secretary of the embassy at Vienna.

SECRETARIES OF LEGATIONS.

William Whiting Andrews, of Ohio, now secretary of the legation at Lisbon, to be secretary of the legation of the United States of America at Berne, Switzerland, vice William Walker Smith, appointed secretary of the legation and consul general at Santo Domingo.

James G. Bailey, of Kentucky, now secretary of the legation to the Netherlands and Luxemburg, to be secretary of the legation of the United States of America at Lisbon, Portugal, vice William Whiting Andrews, nominated to be secretary of the legation at Berne.

Francis Munroe Endicott, of Massachusetts, now secretary of the legation at Christiania, to be secretary of the legation of the United States of America at San Jose, Costa Rica, vice M. Marshall Langhorne, nominated to be secretary of the legation to the Netherlands and Luxemburg.

Franklin Mott Gunther, of Virginia, now second secretary of the embassy at Rio de Janeiro, to be secretary of the legation of the United States of America at Christiania, Norway, vice Francis Munroe Endicott, nominated to be secretary of the legation at San Jose.

M. Marshall Langhorne, of Virginia, now secretary of the legation at San Jose, to be secretary of the legation of the United States of America to the Netherlands and Luxemburg, vice James G. Bailey, nominated to be secretary of the legation at Lisbon.

Willing Spencer, of Pennsylvania, now second secretary of the embassy at Berlin, to be secretary of the legation of the United States of America at Caracas, Venezuela, vice Henry F. Tennant, nominated to be secretary of the legation and consul general at San Salvador.

Sheldon Whitehouse, of New York, now second secretary of the embassy at Paris, to be secretary of the legation of the United States of America at Managua, Nicaragua, vice Arthur Mason Jones, nominated to be second secretary of the embassy at St. Petersburg.

Henry Coleman May, of the District of Columbia, lately secretary of the legation at Stockholm, to be second secretary of the embassy of the United States of America at Tokyo, Japan, vice Ralph B. Strassburger.

Frederick A. Sterling, of Texas, now second secretary of the embassy at St. Petersburg, to be second secretary of the legation of the United States of America at Peking, China, vice George T. Summerlin, nominated to be second secretary of the embassy at Berlin.

George T. Summerlin, of Louisiana, now second secretary of the legation at Peking, to be second secretary of the embassy of the United States of America at Berlin, Germany, vice Willing Spencer, nominated to be secretary of the legation at Caracas.

PROMOTIONS AND APPOINTMENTS IN THE NAVY.

Commander Mark L. Bristol to be a captain in the Navy from the 1st day of July, 1913.

Lieut. Commander Roscoe C. Bulmer to be a commander in the Navy from the 1st day of July, 1913.

Lieut. Roger Williams to be a lieutenant commander in the Navy from the 1st day of July, 1913.

Lieut. (Junior Grade) Guy E. Baker to be a lieutenant in the Navy from the 1st day of July, 1913.

The following-named citizens to be assistant surgeons in the Medical Reserve Corps of the Navy from the 14th day of November, 1913:

Hubley R. Owen, a citizen of Pennsylvania; and
Foster H. Bowman, a citizen of Pennsylvania.

CONFIRMATION.

Executive nomination confirmed by the Senate November 25, 1913.

UNITED STATES MARSHAL.

Edgar H. James to be United States marshal, western district of Kentucky.

SENATE.

WEDNESDAY, November 26, 1913.

The Senate met at 2 o'clock p. m.

The Rev. Arthur Little, D. D., of Boston, Mass., offered the following prayer:

Our heavenly Father, we acknowledge Thee as the source of all life, of all light, of all power. Into Thy presence we come that we may be vitalized, illumined, and empowered for Thy service. We thank Thee for all the ways of goodness and loving-kindness along which Thou art leading us from day to day. We supplicate Thy presence and Thy blessing upon these Thy servants, summoned of God and the people to this tremendous task of legislation for a great Nation. Give them guidance and wisdom and insight and foresight and all needed help, that they may enact such laws as shall be for the well-being of the Republic and for the honor of Thy name.

Make us grateful for all the mercies that enrich our lives. Help us to share with the people of the Nation on the morrow in returning hearty and sincere thanks and acknowledgments to Almighty God for the goodness with which He has crowned the year. Peace, plenty, and prosperity abound, thanks to His bountiful hand.

Command Thy blessing upon the President of the United States and all his advisers. Endow him and those sharing his counsels with wisdom from on high to guide them in all their deliberations. All hearts unite in offering this prayer: "The Lord bless and keep us. The Lord make His face to shine upon us and be gracious unto us. The Lord lift up His countenance upon us and give us peace." Amen.

NAMING A PRESIDING OFFICER.

The Secretary (James M. Baker) read the following communication:

PRESIDENT PRO TEMPORE UNITED STATES SENATE,
Washington, November 26, 1913.

To the Senate:

Being temporarily absent from the Senate, I appoint Hon. JOHN RANDOLPH THORNTON, a Senator from the State of Louisiana, to perform the duties of the Chair during my absence.

JAMES P. CLARKE,
President pro tempore.

Mr. THORNTON thereupon took the chair as Presiding Officer and directed that the Secretary read the Journal of the proceedings of the last legislative day.

THE JOURNAL.

The Journal of yesterday's proceedings was read and approved.
SAN FRANCISCO WATER SUPPLY.

Mr. GALLINGER. Mr. President, I have a lengthy telegram from the Modesto Water Users' Association, of Modesto, Cal., of which I presume every Senator has had a copy, protesting against the passage of the so-called Hetch Hetchy bill. I have also an earnest letter from the Right Rev. Bishop W. W. Niles, of Concord, N. H., on the same subject, entering a protest.

I will not ask that these papers be printed in the RECORD, contenting myself with the statement I have made concerning them.

PETITIONS AND MEMORIALS.

Mr. WEEKS presented resolutions adopted by the Central Labor Union of Fitchburg, Mass., favoring an investigation into the mining conditions in the copper district in the State of Michigan, which were referred to the Committee on Education and Labor.

He also presented petitions of the congregation of the Asbury First Methodist Episcopal Church, of Springfield; of the congregation of the Highlands Methodist Episcopal Church, of Holyoke; of the congregation of the Methodist Episcopal Church of East Longmeadow; and of the Woman's Association of the First Congregational Church of Springfield, all in the State of Massachusetts, praying for the passage of the so-called antipolygamy bill, which were referred to the Committee on the Judiciary.

Mr. WEEKS (for Mr. LODGE) presented a memorial of the Social Science Club of Newton, Mass., remonstrating against